Small Business Development Corporations

The Budget improves the effectiveness of the Small Business Development Corporations (SBDC) Program in Northern and Eastern Ontario. Computer software development is being made an eligible SBDC activity throughout the province and the allocation for the program will be increased to $30 million for the 1985-86 fiscal year.

Transfer Payments

To plan effectively for the provision of adequate and efficient services, our school boards, colleges, universities, hospitals and municipalities need early information on future funding levels.

Early announcement of financial support for major transfer recipients for the 1986-87 fiscal year is included in this year's Budget.

Colleges and Universities

- An allocation of $80 million for colleges and universities excellence funds.
- A four per cent increase in basic operating grants to colleges and universities.
- A four per cent cap on formula tuition fee increases and an eight per cent increase in funding, to $145 million, for the Ontario Student Assistance Program.

School Boards

- Advances to school boards restored to their historic seven per cent level.
- The 1986 General Legislative Grants increased by 5.4 per cent.

- A $25 million education capital fund for school boards to start building needed facilities.
- $107 million to honour the Government's funding commitment to separate secondary schools.
- $17 million in capital funding for separate secondary schools.

Municipalities

- A 4.2 per cent increase in the basic allocation for total transfers.
- A $60 million fund for municipal improvements for special road renovations and transit capital projects.

Hospitals

- An 8.3 per cent increase in the total allocation for the operation of hospitals.

Social Assistance Recipients

- A four per cent increase in social assistance rates, effective January 1, 1986.
- An increase in the shelter subsidies.
- An increase in benefits for children of social assistance recipients, and for handicapped children in particular.

Certainty in Transfer Funding

To provide continuity in funding and further strengthen the partnership between the Province and its major transfer recipients, the Budget provides assurances of a further four per cent increase in basic 1987-88 transfer payments.

Ontario's Revenue System

To provide services to the people of Ontario, additional revenues are needed. These measures bring fairness and equity to Ontario's tax system.

Capital Gains

Ontario is developing proposals to limit the large tax break for higher-income Canadians created by the federal government's capital gains exemption. The federal exemption will do more to stimulate speculation in real estate and foreign securities than productive investment in Canadian business.

Tax benefits of the capital gains exemption should be directed only to small Canadian businesses and family farms.

Personal Income Tax

- An Ontario minimum personal income tax beginning in 1986.
- An increase in Ontario's general rate of personal income tax from 48 per cent of basic federal tax to 50 per cent, will be effective, beginning with the 1986 tax year.
- A surtax of three per cent on Ontario income tax in excess of $5,000 for the 1986 tax year.
- An enrichment to Ontario's tax reduction program to benefit 390,000 low-income Ontarians.

Corporate Income Tax

- Adoption of the half-year convention limiting the tax depreciation allowed on capital assets purchased by corporations.

- Elimination of the three per cent inventory allowance deduction in Ontario's corporate income tax.
- Small business tax simplification measures for tax years ending after December 31, 1984, offset by an increase of one-half percentage point in Provincial corporate income tax, except for small businesses.

Retail Sales Tax

- A tax exemption for prepared food sold for $1.00 or less.
- The removal of tax on feminine hygiene products.
- A tax exemption for children's car seats.
- Indefinite extension of the tax rebate on accommodation tax paid by out-of-province visitors.
- Reinstatement of the tax on Maple Leaf gold coins.

Motive Fuels and Tobacco

The 1981 *ad valorem* taxes on motive fuels and tobacco are being repealed and replaced with a specific tax per unit of product:

- 8.8 cents per litre for all grades of gasoline and 9.9 cents per litre for diesel fuel; and
- 2.7 cents per cigarette and 1.5 cents per gram of cut tobacco.

Mining Tax Reform

The Budget proposes to simplify the mining tax system in Ontario and streamline administrative provisions of the Mining Tax Act. The graduated rate structure will be replaced with a flat 20 per

Enquiries

General enquiries about the 1985 Ontario Budget should be directed to:

Ministry of Treasury and Economics
Frost Building, Queen's Park
Toronto, Ontario
M7A 1Y7
(416) 965-8400

1985
Ontario
Budget

Presented to the Members of
the Legislative Assembly of Ontario
by the Honourable Robert F. Nixon,
Treasurer of Ontario and Minister of Economics

Thursday, October 24, 1985

General enquiries regarding policy in the *Ontario Budget 1985* should be directed to:

Ministry of Treasury and Economics
Frost Building, Queen's Park
Toronto, Ontario M7A 1Y7
(416) 965-8400

Enquiries regarding specific measures in the *Ontario Budget 1985* should be directed to the addresses given in Budget Paper A to the Budget Statement.

Copies are available free from the Ontario Government Bookstore, 880 Bay St., Toronto. Out-of-town customers write to: Publications Services Section, 5th Floor, 880 Bay St., Toronto, Ontario, M7A 1N8. Telephone 965-6015. Toll free long distance 1-800-268-7540, in Northwestern Ontario 0-Zenith 67200.

Printed by the Queen's Printer for Ontario.

ISSN 0381-2332

Pour de plus amples renseignements au sujet du *Budget de l'Ontario 1985*, s'adresser au:

Ministère du Trésor et de l'Economie
Edifice Frost, Queen's Park
Toronto (Ontario) M7A 1Y7
(416) 965-8400

Veuillez faire parvenir les demandes relatives à certaines mesures particulières du *Budget de l'Ontario 1985*, aux adresses données dans le document budgétaire A de l'exposé budgétaire.

On peut se procurer des exemplaires gratuits du présent document à la: Librairie du gouvernement de l'Ontario 880, rue Bay, Toronto ou en écrivant au: Centre des publications 5e étage, 880, rue Bay Toronto (Ontario) M7A 1N8. Téléphone 965-6015. Interurbain sans frais 1-800-268-7540, dans le Nord-Ouest de l'Ontario: 0-Zénith 67200.

Imprimé par l'imprimeur de la Reine pour l'Ontario.

ISSN 0704-3503

1985 Ontario Budget

Table of Contents

Budget Statement

Federal-Provincial Finance 2

A Realistic Presentation 2

Ontario's Economic Outlook 5

Expenditure Priorities 6

Ontario's Revenue System 10

Better Value for the Taxpayer's Dollar 14

The Fiscal Plan 15

Reforming the Budget Process 16

Credit Rating 16

Conclusion 16

Budget Paper A: Budget Measures 19

Budget Paper B: Economic Outlook 35

Budget Paper C: A Realistic Financial Presentation 39

HIGHLIGHTS

1985
ONTARIO BUDGET

THE
HONOURABLE
ROBERT F. NIXON
TREASURER
OF ONTARIO

HIGHLIGHTS

1985
Ontario
Budget

The 1985 Ontario Budget presents a plan to balance social responsibilities with fiscal responsibilities. It creates jobs, introduces new housing initiatives, provides assistance to farmers and promotes economic development in the North. The Budget applies the principles and practices of good management to Government with fairness and equity: keeping clear, open and understandable books; spending money efficiently where it is most needed; and dealing responsibly with our partners in health and social services, education, and municipal governments.

A Realistic Presentation

This Budget presents a realistic statement of Ontario's financial position and provides a sound basis for future planning.

Over $2 billion in financial assets that represent "left-pocket-to-right-pocket-and-back-again bookkeeping entries" are being removed from the Province's books. Overvalued assets are being written down.

Unfunded commitments are being funded.

Suncor

The $650 million Suncor investment is being removed from the Province's books. The Province's investment is being written off and the remaining amount on the loan is being discharged. A review will assess all options to sell the shares as soon as financially prudent.

Ontario Land Corporation

Provincial land holdings are being written down to reflect current appraised value and then

transferred to appropriate ministries or sold as market conditions permit.

Mortgage portfolios are also being written down to reflect existing market conditions.

Ontario's Economic Outlook

The economy is about to enter its fourth successive year of expansion. This year's real growth is expected to be 4.5 per cent. Inflation has fallen from double-digit levels to around four per cent in the last two years. This stability should lead to lower and more stable interest rates. The unemployment rate is expected to drop from an average 8.2 per cent this year to 7.7 per cent in 1986.

Expenditure Priorities

The Budget provides the funding to live up to the commitments outlined by the Premier on July 2 including job creation and training, regional and community-based economic development, and adequate and affordable rental housing.

Training and Employment for Youth

The Budget provides $175 million in 1985-86 and $200 million in 1986-87 to help young people get jobs and much needed training. Employment opportunities and training places will be created for more than 230,000 young people by the end of next year.

A $13 million co-operative education program will help high school students make the transition from school to the workplace.

Helping Ontario's Farmers

Agriculture continues to experience serious economic pressures. This Budget provides funding for a $50 million Ontario Family Farm Interest Rate Reduction Program. It also provides $20 million to the Tripartite Stabilization Plan for red meat producers and a $6 million transition fund for tobacco growers and other farmers leaving the agriculture industry.

Providing Affordable Rental Housing

In the next three years, 10,000 additional non-profit housing units will be built including 4,000 units for families who will receive rent-geared-to-income subsidies. In addition, a new program will provide interest-subsidized loans to developers to stimulate the production of 5,000 rental housing units. These two programs will generate over 30,000 jobs.

Improving Access to Child Care

An additional 10,000 subsidized child care spaces will be provided with priority given to child care in rural and underserviced areas and to children with special care requirements.

Helping Seniors Maintain Independence

The Budget allocates $11 million, on an annual basis, to strengthen support for seniors and begin the process of revitalizing community care.

Developing Northern Ontario

A $100 million special Northern Development Fund will help create viable and enduring economic activity in the North.

The Government will also provide financial assistance to residents of Northern Ontario required to travel long distances for necessary medical care unavailable in their communities.

cent tax rate and the processing allowance structure will be scaled back.

Other Revenue Changes

- An increase in liquor, wine and beer markups and special occasion permit fees and levies, effective November 12, 1985.
- Adjustments in motor vehicle registration and annual driver's licence fees.
- A restructuring in the land transfer tax.

Better Value for the Taxpayer's Dollar

Measures are being taken to streamline some agencies, consolidate Government functions and divest a number of Crown corporations.

- Capital Aid Corporations will be eliminated.
- Ontario Land Corporation and IDEA Corporation will be wound down.
- The functions of the Ontario Energy Corporation are under review.
- Ontario Economic Council will be disbanded.
- Ontario Institute for Studies in Education will be transferred to the University of Toronto.
- Three foreign offices will be closed.

The Fiscal Plan

Net cash requirements for 1985-86 are estimated at $2,213 million and include $518 million in extraordinary one-time adjustments.

Before adjustments, requirements are forecast at $1,695 million compared to $1,702 million in 1984-85. The Province's expenditure growth will be held below the rate of economic growth.

Conclusion

We are confident this Budget describes a fiscally responsible plan to finance the everyday business of Government and to pay for the priorities of a new Administration.

- **We have constrained unnecessary expenditures and eliminated unnecessary agencies.**
- **We have brought new fairness to the task of raising revenues needed to maintain the quality of public services and meet new priorities.**
- **We have taken steps to improve the financial stability of our local governments, colleges, universities and hospitals.**
- **We have opened up the books.**

We are fulfilling the Government's commitments of July 2.

1985 Budget at a Glance

	1984-85	1985-86	Per Cent Change
	($ million)		
Gross Provincial Product	162,098	175,100	8.0
Revenue	25,196	27,302	8.4
Expenditure	26,898	28,997	7.8
Net Cash Requirements before adjustments	1,702	1,695	
Extraordinary Adjustments		518	
Net Cash Requirements after adjustments		2,213	

1985 Budget Statement

I am pleased to present my first Budget to the Legislature and the first Liberal Government Budget since March 19, 1943.

Over the coming months, we will present a plan of action that will ensure steady improvement in the long-term performance of the Ontario economy and its capacity to provide new job opportunities for the men and women of this province.

Ontario is a trading province in a trading nation. Canada is the largest trading partner of the United States, far ahead of Japan, based primarily on the strength of Ontario's economy. We are committed to expanding Ontario's trading horizons, but we will do so without jeopardizing our farm, industrial and resource jobs. We want to strengthen our service sector and revitalize our tourism industry.

We are developing a fresh, comprehensive approach to industrial policy. It must involve all sectors of Ontario's economy: government, business and labour. It will focus on science and technology to meet the challenges of the new international economy. It will be based on the fundamentals of economic progress -- people and ideas.

The Premier, the Honourable David Peterson, set out the Government's immediate social and economic objectives in his speech to the Legislature on July 2.

This Budget presents a plan to accomplish our objectives by carefully balancing social responsibility with fiscal responsibility.

Fiscal responsibility is simply applying the principles and practices of good management to government. It means keeping a clear, open and understandable set of books; it means spending your money efficiently where it is most needed, and it means dealing responsibly with our partners.

We have a new opportunity to strengthen the partnership with our hospitals, colleges, universities and local governments. We have emerged from the recent period of economic uncertainty and high inflation rates into what, I believe, is a much more stable economic environment. We are now in a position to assure greater certainty in funding to our partners in local government and the agencies that provide health and education programs so that they, too, can bring good management and a more business-like approach to their responsibilities.

We value equally our partnership with the other provinces and the federal government. We all benefit when we co-operate to achieve common objectives. Ontario and the other provinces, however, are apprehensive about the federal government's recent approach to federal-provincial finance.

Federal-Provincial Finance

Members will be aware that I attended a meeting of federal and provincial treasurers and finance ministers in Halifax in late September. At that meeting, federal Finance Minister, Michael Wilson re-asserted his intention to proceed with a reduction in the rate of growth of provincial transfer payments for health and post-secondary education. Moreover, he revealed that he planned to start these reductions beginning April 1, 1986; that is, one year before the existing federal-provincial financing arrangements would normally be renewed.

Unless the federal government reconsiders its proposed course, Ontario faces a revenue loss of $150 million in the fiscal year 1986-87, increasing to $300 million the following year and eventually rising to $750 million annually by 1990. In other words, over the next five years, our health and education systems will lose $2 billion in federal support.

These proposed transfer cuts would weaken the partnership under which the federal government is committed to share substantially and equitably in the financing of health and post-secondary education programs that provinces deliver.

Our priorities are clear. We believe in strengthening and revitalizing our post-secondary education system. We believe in meeting the needs in the health care system associated with an aging population and new technologies. We will continue to urge the federal Minister of Finance in the strongest possible terms to adopt the same approach and withdraw his proposed cuts in transfers for health and post-secondary education.

A Realistic Presentation

Since my Statement to the Legislature on July 11, we have continued our examination of Ontario's financial position, including an assessment of the reporting of a number of programs and activities in the Province's accounts.

If we are to begin planning for the future on a sound basis, it is important that our balance sheet accurately reflect the true state of Ontario's financial affairs. Accordingly, I am taking a number of actions.

Ontario has more than $2 billion in financial assets on its books that do not represent any real value, other than to record financial obligations which the Province owes itself.

These reflect past loans and advances to public institutions. The practice of setting up loans and advances to Crown entities for major capital undertakings was ended in the late 1970s. No action was taken, however, to deal with the loans and advances already on the books. I am remedying this by removing these from the Province's financial statements.

I am also correcting other anomalies that exist with respect to proper asset valuation.

Financial assets in these categories include advances, loans and investments related to:

- Ontario Universities Capital Aid Corporation;
- Ontario Education Capital Aid Corporation;
- Ontario Housing Corporation;
- public hospitals;
- Ontario Energy Corporation;
- Ontario Land Corporation; and
- some water treatment and waste control facilities.

The steps I have taken today will put an end to these left-pocket-to-right-pocket-and-back-again bookkeeping entries which would have otherwise continued in the Province's financial accounts well into the twenty-first century.

Furthermore, I am removing from the Province's balance sheet the equity holdings related to four Crown corporations -- the Ontario Development Corporations, the Ontario Energy Corporation, the Urban Transportation Development Corporation and the Liquor Control Board of Ontario.

An explanation of the background and the basis for each of these actions is provided in Budget Paper C.

I would, however, like to share with Members the actions I am taking on Suncor and the Ontario Land Corporation.

Ontario's Investment in Suncor

As Members will recall, in 1981, the Government of the day purchased a 25 per cent shareholding in Suncor Inc. for $650 million. The share purchase was financed by a $325 million cash payment through the Ontario Energy Corporation and a $325 million, 10-year, 14.357 per cent note due to The Sun Note Company.

This was a bad deal.

The current value of the shares is significantly below the original purchase price. A review is now under way to determine the best method of dealing with the Suncor shares. This review will assess all of the disposal options and the shares will be sold as soon as financially prudent.

To clear the Province's books, the recorded investment for the Suncor shares will be written off and the Province's remaining obligation for the Sun note will be discharged at an estimated cost of $305 million. The principal and interest payments otherwise required to retire this debt total $420 million and stretch to the end of 1991.

Whatever might be recovered by the Province in the future from this unfortunate investment will be substantially less than the total that would have been paid by the time the Sun note matures in 1991.

Ontario Land Corporation

I turn now to the Province's advances to the Ontario Land Corporation, which are listed at $872 million as of March 31, 1985. These advances have been channelled into two activities: $453 million for land banks and $419 million for mortgage loans.

Members will not be surprised to learn that the Ontario Land Corporation's estimates put the appraised value of this land at $271 million, well below the original cost and $182 million less than the Province's advance to the Ontario Land Corporation. This loss in value will be written off and the land transferred to the appropriate ministries or sold as market conditions permit.

A large number of the Corporation's $419 million portfolio of mortgage loans were made with terms and conditions not commonly prevailing in today's market. It is estimated that the Province would recover $37 million less than its outstanding advance. Accordingly, the recorded value of this advance is being reduced. The divestiture of these mortgages will proceed in a planned and business-like manner.

These actions put all the cost implications of these anomalous situations behind us and they will not continue to distort our financial position.

A Clean Slate

My examination of the financial position of the Province also revealed that there are a number of major expenditure commitments that were not funded in the Estimates inherited from the previous Government.

The Budget makes provision to accommodate these unfunded commitments: $90 million in municipal transit and $15 million for hospital operating programs. I am also providing $10 million for additional write-offs of loans made by the Ontario Development Corporations which are deemed to be uncollectable. In order to avoid similar problems in the future, the Management Board of Cabinet will conduct a review of the procedures authorizing ministries to make financial commitments on behalf of the Government.

Historically, in the last three months of each fiscal year, the Province has paid a seven per cent advance on the next fiscal year's General Legislative Grants to school boards to help meet expenses for those three months. Over the past few years, the Province has reduced these advances to only 3.6 per cent. This Budget provides the $108 million necessary to restore the advances to the seven per cent level. This move will be of substantial assistance to school boards.

In summary, the actions I have taken will provide a more accurate presentation of the financial state of affairs of the Province. With the slate clean, we can present a more easily understood financial picture.

Ontario's Economic Outlook

I would now like to report on Ontario's economic performance. Further details are provided in Budget Paper B.

Our economy is about to enter its fourth successive year of expansion. This year, real growth is expected to be 4.5 per cent. Treasury staff estimate that real growth in 1986 will be somewhat slower, at 2.4 per cent.

Moreover, our economic growth is more balanced. In comparison with the early stages of the economic recovery, Ontario's growth is less dependent on exports to the United States. This provides for a more stable environment by reducing our vulnerability to external disturbances.

Business investment, residential construction and consumer spending will continue to expand. Our export-oriented industries should also perform well, aided by recent improvements in our competitive position.

On the inflation front, I believe we have entered a period of stability compared with the volatility of the past ten years. Inflation has fallen from double-digit levels in the early 1980s to around four per cent in the last two years. For 1986, it is forecast to be 4.4 per cent. This stability should also be reflected in lower and more stable interest rates.

Creating Jobs

Job creation and training must be a high economic priority. Continued growth will lead to further job creation. Employment is expected to rise by 108,000 in 1986, following an estimated 152,000 increase in 1985. This will bring the unemployment rate down from an average 8.2 per cent in 1985 to 7.7 per cent next year. Such levels, while a clear improvement from the 11 to 12 per cent in 1982 and 1983, are still too high.

Helping young people to prepare for and find employment is a major challenge. Although Ontario's youth unemployment rate continues to improve, it remains well above the overall average for the labour force.

Other groups in the labour market also require special attention. Some workers have been adversely affected by major changes in the economy and have not shared fully in the benefits of renewed economic expansion. These workers are frequently unemployed for long periods of time. Often they are located in communities or regions dominated by a single industry. As a result, unacceptably high unemployment persists in some Ontario communities.

In developing our spending plans, I have placed a high priority on regional and community-based economic development initiatives. In addition, the Budget contains specific measures to assist Northern Ontario communities.

Expenditure Priorities

On July 2, Premier Peterson outlined the Government's program for this Session and, today, I would like to report on our progress to date. Funding for this program is provided in this Budget plan.

A New Training and Employment Program for Youth

The 1985-86 Estimates provided $100 million for 12 different youth programs. This structure created inconsistencies, gaps and duplication. A new program, Futures, already announced by the Minister of Skills Development, Greg Sorbara, introduces a single work experience program that replaces six of the existing youth employment and training programs. Futures is a major step towards a consolidated approach to job preparation and training. It is directed to employment-disadvantaged youth, 24 years of age and under, and will guarantee up to one year of work experience for all hard-to-employ youth who undertake educational upgrading.

Today, I am announcing a $75 million increase to the youth programs this year and a total allocation of $200 million for next year. These programs will create employment opportunities and training places for more than 230,000 young people by the end of next year.

In addition, the Province will provide school boards with $13 million over the next three years for co-operative education programs to assist high school students in making the transition from school to the workplace.

Helping Ontario's Farmers

Agriculture continues to experience serious economic pressures. We are taking actions to help our farm families cope with the low cash receipts and heavy debt burdens they are facing. We are developing a number of new programs to address this situation. The Minister of Agriculture and Food, Jack Riddell, has already announced a $50 million Ontario Family Farm Interest Rate Reduction Program to assist farmers in reducing the cost of their long-term debt to eight per cent for this year.

This Budget also provides $20 million as Ontario's share of this year's payments under the Tripartite Stabilization Plan for our red-meat producers. The Minister of Agriculture and Food is now involved in negotiations to ensure that the federal government joins the Province in making the much-needed payments to our beef and hog farmers retroactive.

Within the next few weeks, the Minister of Agriculture and Food will be announcing details of a $6 million transition fund to assist farmers leaving the agriculture industry. The program will recognize the particular difficulties faced by the tobacco-growing sector.

Providing Affordable Rental Housing

One of the Government's major priorities is to assure an adequate and affordable supply of rental housing.

The federal government has re-examined its non-profit housing programs and has proposed major changes in the mechanisms of federal support.

Ontario expects the federal government to continue to fulfill its obligation in the provision of affordable housing.

For our part, we are developing an integrated housing strategy as a comprehensive response to the problems of the housing sector. As part of this strategy, the Budget funds significant increases in the number of socially-assisted rental units produced in Ontario. These funds will result in the construction of at least 10,000 additional non-profit housing units in the next three years, more than 4,000 of which will receive rent-geared-to-income subsidies.

The private sector also has a crucial role to play in the provision of rental housing. We will seek to encourage and strengthen that role by providing funds for interest-subsidized loans to developers to stimulate the production of 5,000 rental housing units.

These two programs will generate over 30,000 jobs. Further initiatives to encourage the production of new rental housing and the rehabilitation of older rental buildings will be outlined in the next few weeks by Alvin Curling, the Minister of Housing.

The Minister will introduce legislation shortly to fulfill our commitment to establish a Rent Registry and to make important amendments to the Residential Tenancies Act.

Improving Access to Child Care

In addition to ensuring more low-cost rental housing for young families, improved child care programs are required and new approaches are currently under review. The Budget provides for subsidized spaces, promised by Premier Peterson in April of this year, to accommodate an additional 10,000 children. Priority will be given to child care in rural and under-serviced areas and to children with special care requirements.

Helping Seniors Maintain Independence

The Government is working to revitalize the system of community care to help seniors maintain their independence, and is developing a longer-term support strategy. The Budget addresses this area of urgent need by providing $11 million on an annual basis to strengthen support services for the elderly in our communities.

Developing Northern Ontario

As I mentioned earlier, economic development in Northern Ontario is a priority. The Government has created a special, $100 million, Northern Development Fund. Over the next five years, this Fund will support economic development initiatives of the Ministry of Northern Affairs and Mines to create viable and enduring economic activity in the North.

Beginning in December of this year, the Government will provide financial assistance to residents of Northern Ontario who must travel long distances for necessary medical care that is unavailable in their communities. This program for Northern residents will help remove financial barriers impeding access to specialist health care services in the North and

elsewhere in Ontario. Furthermore, the Minister of Health, Murray Elston, has developed a program to encourage additional medical specialists to establish practices in Northern Ontario.

Small Business Development Corporations

To strengthen the small business sector, I am proposing changes to Ontario's Small Business Development Corporations (SBDC) Program to improve its effectiveness, particularly in the North and the East. As well, I am adding computer software development as an eligible activity throughout the province.

To accommodate the expected increase in activity, the budget allocation for the SBDC Program will be increased to $30 million for the 1985-86 fiscal year.

Transfer Payments

As I mentioned at the outset, one of my objectives is to strengthen our partnership with local governments and with those who deliver major education and health services. If our school boards, colleges, universities, hospitals and municipalities are to plan effectively for the provision of adequate and efficient services, they need early information on future Provincial funding levels. That is why I have decided to make an announcement of our financial support for the 1986-87 fiscal year at this time.

The Government expects each of its public sector partners to contribute to efforts to assure taxpayers that their hard-earned tax dollars are being spent prudently in an environment of careful planning and good management.

Inflation has stabilized and this should be reflected in public sector salaries and other costs of operation. We have to manage our limited resources carefully and target resources for emerging priorities. We must maintain and upgrade our educational facilities; we must place greater emphasis on opportunities for excellence among our students and ensure the vitality of our cities through improvements in roads and urban transit.

Colleges and Universities

The basic operating grant for Universities and for Colleges of Applied Arts and Technology will be increased by four per cent in 1986-87.

In addition, I have allocated a total of $80 million in 1986-87 for the colleges and universities excellence funds. As announced in this House on October 17, $50 million will be made available to our universities to update student and library equipment, increase research activities and appoint new faculty. The excellence funds will enable colleges to purchase state-of-the-art teaching equipment and allow both our colleges and universities to undertake much-needed capital repairs.

Members will be pleased to know that funding will be provided for the University of Waterloo to complete the construction of its new computer

research centre, which has been named in honour of William Grenville Davis.

The Government is committed to improving access to our post-secondary education system. Accordingly, to reduce financial barriers, increases to formula tuition fees will be held to four per cent for the coming year while funding for the Ontario Student Assistance Program will be increased by eight per cent, to $145 million, in 1986-87.

School Boards

In keeping with the Government's promise to gradually increase school board support, the 1986 General Legislative Grants will be increased by 5.4 per cent.

In addition, we will establish a $25 million education capital fund. This fund will provide a significant enrichment to the $67 million in next year's basic allocation for capital purposes. This will enable school boards to start building badly-needed school facilities in rapidly-growing communities and to update existing schools. Full details on 1986-87 Provincial assistance for all school boards will be announced by Sean Conway, the Minister of Education.

The Budget also honours the Government's commitment to extend funding to separate schools. In September, the Government enriched funding for grades 9 and 10 and extended support to grade 11 students, at a cost of $34 million. In the next fiscal year, the Estimates will provide $107 million for this purpose, including the extension of support to grade 12 by September 1986. Also, we will provide a further $17 million in capital funding to accommodate the expansion of the separate secondary school system.

Municipalities

In 1986-87, the basic allocation for total transfers to municipalities will be increased by 4.2 per cent. Details on unconditional grants will be announced by Bernard Grandmaître, the Minister of Municipal Affairs.

Furthermore, the Budget establishes a fund for municipal improvement. For the coming fiscal year, this fund will have $60 million for special road renovations and the transit capital program. Further details on the first year of this fund will be announced by Ed Fulton, the Minister of Transportation and Communications.

Hospitals

The total allocation for the operation of hospitals for 1986-87 will be increased by 8.3 per cent. This increase includes four per cent for the basic allocation for the operation of hospitals and the necessary funding to accommodate additional costs associated with higher demand for hospital services. It also includes provision for new, approved hospital programs, the details of which will be announced by the Minister.

Social Assistance

The Government is taking action to help economically disadvantaged people who rely on social assistance to meet their basic needs. I am announcing a four per cent increase in social assistance rates to take effect on January 1, 1986.

In addition, I am providing the resources to increase the shelter subsidy to relieve some of the pressure attributable to high shelter costs in urban areas. Additional funds have also been allocated to provide increased benefits for the children of social assistance recipients and for handicapped children in particular.

The Minister of Community and Social Services, John Sweeney, will present details shortly.

Certainty of Transfer Funding

As a major step in strengthening the partnership between the Provincial Government and its major transfer recipients, I am acting to provide greater certainty in their funding. Accordingly, I am announcing that these transfer recipients will receive a further four per cent increase in their basic transfer payments for 1987-88.

Ontario's Revenue System

The May Federal Budget

At the beginning of my remarks, I reported that the federal Finance Minister, Michael Wilson, had recently confirmed his intention to proceed with the cuts in funding for federal support of health and post-secondary education.

In his May budget, the Minister of Finance also announced a number of tax measures which I believe move our overall income tax system in the wrong direction.

His budget proposes to grant individual Canadians a lifetime capital gains exemption of $500,000. In its present form, this federal capital gains exemption will reduce Ontario's revenue by as much as $125 million in 1986-87 alone. This measure will provide another large tax break for higher-income Canadians at a time when limits on indexation and the elimination of the federal tax reduction program will increase the burden on low-income taxpayers. Exempting capital gains will do more to stimulate speculation in real estate and foreign securities than encourage productive investment in Canadian business.

The benefits of this exemption should be directed only to small Canadian businesses and to family farms. I believe the federal government should alter its capital gains tax exemption along these lines. In the meantime, Ontario Treasury officials are developing proposals to amend Ontario's tax collection agreement with the federal government that would ensure the continued Provincial taxation of capital gains, other than those gains arising from the disposition of family farms and small Canadian businesses.

A positive aspect of the May budget was the announcement of the federal government's intention to introduce a minimum personal income tax. This fall, the federal government is expected to announce the specific form of its minimum tax which, if appropriate, I will parallel with a similar Provincial tax.

Ontario's Revenue Measures

Our assessment of the Province's financial situation indicated that the existing revenue structure was not adequate to meet the increasing cost pressures associated with providing services to the people of Ontario, within a framework of fiscal responsibility. We also recognize the pressures created by the federal government's plans to reduce its transfer payments to the Province for health and post-secondary education.

Accordingly, I will introduce a number of measures to raise additional revenues. These measures recognize the need to improve the fairness and equity in Ontario's tax system.

Personal Income Tax

I will introduce legislation to raise Ontario's general rate of personal income tax from 48 per cent of basic federal tax to 50 per cent beginning with the 1986 tax year. This measure will yield $26 million in 1985-86. Budget Paper A provides more information on the revenue implications of the measures I am announcing today.

I also propose a surtax of three per cent of Ontario income tax in excess of $5,000 for the 1986 taxation year. This surtax should affect only the top two and one-half per cent of taxfilers in Ontario. It is expected to yield $2 million in 1985-86.

Annual Impact of Personal Income Tax Changes in the Budget
(dollars)

Annual Income	Increase in Tax Payable	
	Single	Married[1]
10,000	14	-18
15,000	33	15
20,000	50	33
25,000	70	51
30,000	92	72
40,000	142	121
50,000	200	174
75,000	472	421
100,000	769	718

Note: Assuming standard deductions and exemptions.

[1] Taxpayer claiming spouse and two children.

Although the federal government has proposed to eliminate its low-income tax reduction program for 1986 and subsequent taxation years, Ontario's tax reduction program will be enriched. This move will exempt another 50,000 individuals from Ontario tax and will mean that 350,000 low-income Ontarians will pay no Provincial income tax at all. Another 40,000 Ontarians with modest taxable incomes will have their Ontario income tax reduced.

Corporations Income Tax

Fairness requires an appropriate balance between the taxation of individuals and the corporate sector. Accordingly, I am introducing changes to the taxation of corporations.

First, I will parallel the federal half-year convention that applies to the level of tax depreciation allowed on capital assets purchased by corporations. Adoption of this convention recognizes the inappropriateness of providing corporations with a full-year deduction for capital assets which may have been purchased at the end of the year. This measure is expected to increase Provincial revenues by $15 million in this fiscal year. Appropriate transition provisions will be made.

Second, I propose to eliminate the three per cent inventory allowance in Ontario's corporate income tax. This allowance was introduced in 1977 to reduce the impact of high rates of inflation on inventories. With the recent decline and the prospect of stability in inflation rates, the rationale for this measure has disappeared. Elimination of the allowance is expected to increase Provincial revenues by $15 million in 1985-86.

Finally, to reduce record-keeping and compliance costs for small business corporations in Ontario, I will parallel, in Ontario's Corporations Tax Act, the small business tax simplification measures introduced by the federal government for taxation years ending after December 31, 1984. To ensure that future revenue losses are offset within the corporate sector, I am proposing to balance this measure with a one-half percentage point increase in the Provincial corporate income tax rate, excluding the low 10 per cent rate applicable to small business.

Retail Sales Tax Changes

To begin to meet the Government's commitment to improve the fairness of the retail sales tax, I propose the following tax changes:

- a tax exemption for prepared food products sold for $1.00 or less;
- the removal of retail sales tax on feminine hygiene products; and
- a tax exemption for children's car seats.

I also propose an indefinite extension of the tax rebate on accommodation tax paid by out-of-province visitors. I anticipate that the revenue cost of these measures will be $7.5 million in 1985-86.

In addition, I intend to reinstate the tax on Maple Leaf gold coins, yielding $600,000 this fiscal year.

Ad Valorem Taxation of Tobacco and Motive Fuels

I am introducing legislation to repeal the *ad valorem* taxes on motive fuels and tobacco introduced in 1981 and replace them with specific amounts of tax per unit of product. Future tax changes will not be automatic; they will require approval of the Legislature.

For motive fuels, the legislation, upon Royal Assent, will set the tax rates at 8.8 cents per litre for all grades of gasoline and 9.9 cents per litre for diesel fuel. Other rates will be adjusted accordingly. Non-conventional fuels will continue to be exempt from motive fuels taxation.

These fuel tax measures will yield additional revenues of $12 million in this fiscal year.

For tobacco, the legislation I am proposing today, upon Royal Assent, will set tobacco tax rates at 2.7 cents per cigarette and 1.5 cents per gram of cut tobacco.

Mining Tax Reform

One of the issues raised during my pre-budget consultations was the urgent need for mining tax reform. In response, I am proposing modifications to simplify the mining tax system in Ontario and to streamline the administrative provisions of the Mining Tax Act. These changes will be accomplished without any loss in revenue. Under this proposal, the graduated rate structure would be replaced with a flat 20 per cent rate of tax and the processing allowance structure would be scaled back. More specific detail can be found in Budget Paper A.

The Minister of Northern Affairs and Mines, René Fontaine, will introduce legislation with a view to implementing reforms by April 1986. This will allow ample opportunity for discussion and consultation before the new measures take effect. I am confident that updating Ontario's mining tax will have a positive effect on this industry which is vital to the economic health of Northern Ontario.

Other Revenue Changes

Liquor, wine and beer mark-ups will be increased. To reflect a part of the inflationary changes since the last adjustment in 1976, special occasion permit fees and levies will also be increased. Both of these changes will become effective November 12, 1985 and together will increase revenues by $19 million in 1985-86.

Adjustments in motor vehicle registration and annual driver's licence fees will yield $11 million in this fiscal year.

The land transfer tax will be restructured and rates increased to 0.5 per cent on the first $55,000 and one per cent on the balance. An additional 0.5 per cent on the value in excess of $250,000 will be applied on certain residential properties. The land transfer tax amendments will generate an estimated $6 million in additional revenue this fiscal year.

The full details of these and a number of other revenue changes are provided in Budget Paper A.

Better Value for the Taxpayer's Dollar

To ensure better value for the taxpayer's dollar, our examination of the financial position of the Province included a review of the $181 million in commitments made by the previous Government between the May 2 election and June 26. Over $41 million in spending was trimmed from that total.

Further reviews of the proposed spending plans of each ministry were conducted. In total, constraints of over $260 million were applied to keep spending under control.

Specific actions taken include:

- the elimination of three policy secretariats;
- a review and reduction of proposed advertising expenditures; and
- across-the-board reductions in Government salary and wage spending.

The Premier has appointed a special advisor who is reviewing a number of Government activities. This, along with actions I am taking in this Budget, will help reduce Government spending as a share of the economy. Expenditure growth will be kept to 7.8 per cent while the economy will grow at eight per cent.

To reinforce the actions and policies I have announced, I am also proposing to streamline some agencies, to consolidate certain Government functions and to divest a number of Crown corporations.

The Capital Aid Corporations are no longer necessary and will be eliminated. The Ontario Land Corporation will be wound down and its residual holdings transferred to the appropriate ministries or sold as market conditions permit.

The functions of the Ontario Energy Corporation are being reviewed with the objective of determining the desirability of divesting further assets.

As Treasurer, I am privileged to have access to a multitude of advisors on the economy, including several independent private and public organizations, for example, the Conference Board of Canada and the Institute for Policy Analysis of the University of Toronto. This is why I have decided to disband the Ontario Economic Council and eliminate the $1.6 million annual expenditure related to its operations.

As a step towards eliminating duplication in the public sector, the Government will transfer the Ontario Institute for Studies in Education to the University of Toronto.

The Government has been reviewing the cost-effectiveness of its foreign operations. We will be examining methods to enhance our capacity to work in Washington. In the interests of improving Ontario's share of world trade, we will target our trade promotion efforts on the fast-growing markets of

the Pacific Rim, the Middle East and emerging nations. To achieve these objectives, the Government has decided to re-allocate resources from other international offices and close posts in Brussels, Philadelphia and San Francisco.

The present IDEA Corporation will be wound down. In its place, a slimmed-down, tightly-focussed entity, operating in the pre-venture capital area, will be created.

Finally, to ensure taxpayers receive better value for their tax dollars, there is a need for a comprehensive review of the effectiveness and efficiency of all Government activities. The Chairman of the Management Board of Cabinet, Elinor Caplan, will tackle this difficult and challenging task.

The Fiscal Plan

The Budget plan has been designed to fulfill our commitments in a framework of fiscal responsibility. The actions I have taken to discharge the Suncor debt, restore advances to school boards and correct unfunded commitments must be clearly recognized as extraordinary, one-time items in the accounts. Including these items, net cash requirements for 1985-86 total $2,213 million.

Without these one-time extraordinary measures, the Budget plan holds net cash requirements to $1,695 million, a reduction from $1,702 million last year. It continues the downward trend in net cash requirements as a percentage of total Government spending, from 6.3 per cent last year to 5.8 per cent.

1985 Budget Plan and Impact of Extraordinary Adjustments
($ million)

	1984-85	Budget Plan 1985-86	Per Cent Change
Revenue	25,196	27,302	8.4
Expenditure	26,898	28,997	7.8
Net Cash Requirements before adjustments	1,702	1,695	
Extraordinary Adjustments		518	
Net Cash Requirements after adjustments		2,213	

Without extraordinary items, revenues are projected to increase 8.4 per cent this fiscal year, reflecting both continued economic growth and the revenue measures I have announced; expenditures are expected to grow at 7.8 per cent.

Details of this fiscal plan are included in the Financial Tables in Budget Paper C.

I would like to draw to the attention of Members the changes I have made in the financial tables to give a clearer and more detailed picture of the Province's finances.

Reforming the Budget Process

I believe the Budget has benefitted from the advice and counsel I received from many groups in pre-budget consultations. Accompanying the Budget is a discussion paper entitled *Reforming the Budget Process*, which contains proposals to increase the involvement of the Legislature in the Budget process and improve participation in pre-budget consultations.

Credit Rating

Before concluding, I would like to make some personal comments about the credit rating.

The first thing I want to say is that I think Ontario's credit rating matters. Credit ratings serve as a valuable guide for investors unfamiliar with the credit worthiness of each of the many thousands of corporations and governments that issue or guarantee securities. That is what they are intended to be and that is why the issuers of securities, including the Ontario Government, pay the rating agencies to be rated.

In political terms, the value of the credit rating is lost when a government's ambitions for its credit rating exceed its ambitions for the province and the people.

In practical terms, the triple-A credit rating has little significance. Having a triple-A credit rating does not provide needed jobs for young people, nor improve access to affordable housing, nor improve the quality and availability of health care.

This is not to say that fiscal responsibility -- or credit worthiness -- is not one of our fundamental priorities. I believe this Budget demonstrates our commitment to this objective. We have dealt with the outstanding budget problems of the Province, including Suncor, in a business-like manner, and we have developed a responsible fiscal plan.

Together with the overall economic circumstances and outlook for our province, I believe that the security Ontario offers lenders for their investments is stronger than at any time in recent years.

Conclusion

We are confident that this Budget describes a fiscally responsible plan to finance the everyday business of Government and to pay for the priorities of a new Administration.

- We have constrained unnecessary and unproductive expenditures and eliminated unnecessary agencies.
- We have brought new fairness to the task of raising the revenues needed to maintain the quality of public services and to meet new priorities.
- We have taken steps to improve the financial stability of local governments, colleges, universities and hospitals.
- We have opened up the books, removed accounting anomalies and written off overvalued assets.

Most important, we have announced and funded programs to implement the commitments made by the Government as it assumed the responsibility for the public affairs of Ontario. The Premier, in establishing the priority of these programs, has emphasized jobs for young people and the growth of our economy which will provide opportunities for all in this great province.

Budget Paper A
Budget Measures

Table of Contents

A1: Details of Revenue Changes 20
A2: Reform of the Mining Tax Act 29
A3: Small Business Development Corporations 31
A4: Summary of Revenue Changes 33

A1: Details of Revenue Changes

The purpose of this section is to provide a more detailed description of the tax changes outlined in the Budget Statement. This is a concise summary only, and the reader is advised to consult the amending legislation for exact information.

Income Tax Act

Rate Increase

- The rate of Ontario personal income tax levied under the Income Tax Act will be 50 per cent of Basic Federal Tax for 1986 and subsequent taxation years.

Surtax

- For the 1986 taxation year, a surtax of 3 per cent of Basic Ontario Income Tax in excess of $5,000 will be levied.

Ontario Tax Reduction Enrichment

- For purposes of the Ontario Tax Reduction, the prescribed taxable income level below which no Ontario tax is payable is $1,630 for 1986. The level above which no reduction is available is $1,760.

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
4th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Z2
(416) 965-5738

The Land Transfer Tax Act

Tax Changes

- The basic rates of land transfer tax will be increased to ½ of 1 per cent on the first $55,000 of value of consideration and 1 per cent on the remainder.
- An additional tax equal to ½ of 1 per cent will be imposed on that portion of the purchase price in excess of $250,000, where the sale is a single parcel of land containing one, but not more than two, single-family residences.
- Single-family residence includes accommodation for the family's domestic employees.
- A single-family residence on a farm eligible for a farm tax reduction rebate will not be subject to the additional tax.
- A refund of the additional tax can be obtained where, within three years of the sale, the land is used in farming and the purchaser becomes eligible for a farm tax reduction rebate.
- Sales of apartment buildings and other residential rental buildings containing more than two residential units will be exempt from the additional tax.
- Non-resident acquisitions of restricted land are unaffected by this change.

Effective: the day following Royal Assent to enabling legislation.

All enquiries regarding land transfer tax changes should be directed to:

Land Transfer Tax Section
Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
(416) 433-6396

For telephone enquiries in Toronto call (416) 965-1774, extension 6352.

Gasoline Tax Act

Tax Changes

- The *ad valorem* taxation of gasoline and aviation fuel will be abolished.
- The new specific tax for all grades of gasoline will be 8.8 cents per litre. The new specific tax on aviation fuel will be 1.88 cents per litre.

Effective: the day following Royal Assent to enabling legislation.

Fuel Tax Act, 1981

Tax Changes

- The *ad valorem* taxation of diesel fuel will be abolished.
- The new specific tax for diesel fuel will be 9.9 cents per litre. The new specific tax for diesel fuel used in railway locomotives will be 3.1 cents per litre.

Effective: the day following Royal Assent to enabling legislation.

All enquiries regarding gasoline and fuel tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
(416) 433-6340

For telephone enquiries in Toronto call (416) 965-5407, extension 6336.

Retail Sales Tax Act

Exemption Level for Prepared Food Products

- **Prepared food products with a total value of $1.00 or less will be exempt from the 7 per cent tax.**

Exemption for Feminine Hygiene Products

- **The 7 per cent tax will be withdrawn on purchases of sanitary napkins, sanitary belts and tampons.**

Indefinite Extension of Rebate to Out-of-Province Visitors of Tax Paid on Transient Accommodation

- **The rebate to out-of-province visitors of the 5 per cent tax paid on transient accommodation consumed in Ontario, scheduled to expire on December 31, 1985, will be extended indefinitely.**

Exemption for Children's Car Restraint Seats

- **The 7 per cent tax will be withdrawn on purchases of children's car seats. The exemption applies only to child restraint seats that meet the requirements as outlined in the Highway Traffic Act.**

Exemption Eliminated on Maple Leaf Gold Coin

- **The exemption for the Canadian Maple Leaf gold coin will be withdrawn and tax at the rate of 7 per cent will apply.**

Effective: **the day following Royal Assent to enabling legislation.**

All enquiries regarding these retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
P.O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7
(416) 433-6322

For telephone enquiries in Toronto call (416) 965-5407, extension 6336.

Revenue from Beverage Alcohol

Spirits, Wine and Beer

- An across-the-board mark-up levy of 10¢ will be applied to each 750 millilitre bottle of spirits and wine and to each 12-pack of 341 millilitre bottles of beer.
- Proportionate levies will apply to all other bottle/package sizes of these products.

Effective: November 12, 1985.

All enquiries regarding beverage alcohol price changes should be directed to:

Ministry of Consumer and
Commercial Relations
Liquor Control Board of Ontario
Communications Office
55 Lake Shore Boulevard East
Toronto, Ontario
M5E 1A4
(416) 963-1926

Special Occasion Permit Fees

- The fee payable for a special occasion permit will be increased by 75 per cent.
- The fee payable upon the issue of a special occasion purchase permit per unit of spirits, wine and beer will be increased by 75 per cent and rounded up to the nearest 5 cents.

Effective: November 12, 1985.

All enquiries regarding special occasion permit fee changes should be directed to:

Ministry of Consumer and
Commercial Relations
Liquor Licence Board of Ontario
Policy, Research and Development
55 Lake Shore Boulevard East
Toronto, Ontario
M5E 1A4
(416) 965-4659

Tobacco Tax Act

Tax Changes

- The *ad valorem* tax structure for cigarettes and cut tobacco will be abolished and replaced with a specific tax per unit.
- The specific taxes will be:
  - 2.7¢ per cigarette; and
  - 1.5¢ for each gram, or part of a gram, of cut tobacco and all other tobacco products except cigars.
- The tax rate on cigars remains at 45 per cent.

Effective: the day following Royal Assent to enabling legislation.

All enquiries regarding tobacco tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
(416) 433-6340

For telephone enquiries in Toronto call (416) 965-5407, extension 6336.

Corporations Tax Act

Small Business Tax Simplification

- Ontario will parallel the recent changes in the Income Tax Act (Canada) related to small business tax simplification.
  - The cumulative deduction account limit and special non-qualifying business category will be eliminated.

Effective: for taxation years ending after December 31, 1984.

- Where a corporation is a Canadian-controlled private corporation throughout the year and had taxable income in the immediately preceding year of less than $200,000, it will be required to pay its balance of tax within three months of its taxation year-end. Otherwise, it will be required to pay the balance of tax within two months of its taxation year-end.

Effective: for taxation years ending after the date of Royal Assent to enabling legislation.

Small Business Tax Holiday

- Consequent on the tax simplification changes above, Section 33 of the Corporations Tax Act will be amended to exclude from the small business tax holiday:
  - corporations with taxation years ending in the period January 1, 1985 to May 13, 1985 whose cumulative deduction account in the prior taxation year exceeded $1 million; and
  - non-qualifying businesses, as defined under Section 33a.

Inventory Allowance

- No claim will be permitted in respect of an inventory allowance as described in paragraph 20(1)(gg) of the Income Tax Act (Canada).

Effective: for taxation years of corporations ending after the date of Royal Assent to enabling legislation. For taxation years including that date, the inventory allowance will be prorated on the basis of the number of days prior to and including that date.

Capital Cost Allowance: Property Acquired In The Year

- The Corporations Tax Act will be amended to parallel the half-year rule of the Income Tax Act (Canada). The capital cost allowance deduction in the year an eligible asset is acquired will be limited to one-half of the normal rate of claim otherwise permitted.
- Transitional provisions will set out conditions under which depreciable property in the process of being acquired prior to October 25, 1985 will be exempted from this measure, provided that the asset must be acquired or the cost incurred after October 24, 1985 and before January 1, 1987. As well, provided that certain conditions are satisfied, depreciable property acquired by corporations for shares, on the dissolution of a partnership, as a result of an amalgamation or winding-up, or as a result of a non-arm's length transfer will be

exempted from this measure. The structure of these transitional provisions will conform to regulations 1100(2.1) and (2.2) of the Income Tax Act (Canada).

Effective: for assets acquired after October 24, 1985.

Payments to Non-Residents

- Subsection 12(6) of the Corporations Tax Act in respect of management fees, rents or similar payments to non-residents will be amended to remove the requirement that tax be levied under paragraphs 212(1)(a), (d) or (e) or subsection 212(5) of the Income Tax Act (Canada) for the partial add-back to income to apply.

Effective: for amounts paid or payable in 1985 and subsequent taxation years of the payor.

Income Tax Rate Increase

- The general rate of corporations income tax will be increased from 15 per cent to 15½ per cent.
- The rate on income from manufacturing and processing operations, mining, logging, farming and fishing will be increased from 14 per cent to 14½ per cent.

Effective: for taxation years of corporations ending after the date of Royal Assent to enabling legislation. For taxation years including that date, the tax increase will be prorated on the basis of the number of days subsequent to that date.

All enquiries regarding corporations tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6
(416) 433-6513

For telephone enquiries in Toronto call (416) 965-1160, extension 6513.

Fees and Licences

Passenger Vehicle Registration Fees

- Annual registration fees for passenger vehicles in Southern Ontario will be increased as follows:
  - Passenger cars, and commercial motor vehicles weighing 2,400 kilograms or less used for personal purposes, to $54 from $48;
  - Motorcycles and mopeds to $30 and $9, respectively, from $24 and $6.
- Annual registration fees for passenger vehicles in Northern Ontario will be increased as follows:
  - Passenger cars, and commercial motor vehicles weighing 2,400 kilograms or less used for personal purposes, to $27 from $24;
  - Motorcycles and mopeds to $15 and $9, respectively, from $12 and $6.

Effective: for registration renewals commencing December 1, 1985.

Commercial Motor Vehicle Registration Fees

- Annual registration fees for commercial motor vehicles in both Northern and Southern Ontario will be increased as follows:
  - Commercial motor vehicles, weighing 3,000 kilograms or less, to $81 from $72;
  - For commercial motor vehicles, weighing over 3,000 kilograms, from the present range of $93 to $2,339 to a new range of $107 to $2,690.
- There will be no change in fees for commercial motor vehicles owned and used by farmers and for all buses.

Effective: for registration renewals commencing April 1, 1986.

Detailed fee schedules for all classes of motor vehicles will be provided by the Ministry of Transportation and Communications.

Driver's Licence Fee

- The driver's licence fee will be increased from $15 to $21 per three-year period.

Effective: January 1, 1986.

All enquiries regarding these changes should be directed to:

Public and Safety Information Branch
Ministry of Transportation and Communications
First Floor, West Tower
1201 Wilson Avenue
Downsview, Ontario
M3M 1J8
(416) 248-3501

A2: Reform of the Mining Tax Act

- Legislation to reform the Mining Tax Act will be brought forward by the Minister of Northern Affairs and Mines. It is the Government's intention that reform legislation be in effect for taxation years ending after March 31, 1986.
- The reform legislation will propose the following structural changes to the Mining Tax Act and Regulations:

	Current System		Proposal	
Rates (%)	$0 – $250,000	0	$0 – $500,000	0
	$250,000 – $1 million	15	Over $500,000	20
	$1 million – $10 million	20		
	$10 million – $20 million	25		
	Over $20 million	30		
Processing Allowance (%)	Concentrator	8	8	
	Smelter	16	12	
	Refinery located in:			
	– Canada	20	16	
	– Northern Ontario	25	20	
	Further processing in Northern Ontario	30	20	
Processing Allowance Minimum/Maximum (%)		15/65	15/50	
Carry-forward of the Processing Allowance		Yes	No	
Disaggregation of New Mines		Yes	No	

- In addition, the Mining Tax Act will be amended to simplify the administrative provisions by reducing discretionary powers and by clarifying the terminology. Among these are proposals to:
  - amend definitions (mine, operator, person) so that a joint venture participant is an operator and files a tax return with full flow-through of his share of the costs and revenues of the joint venture mine;
  - define processing plant, and exploration and development expenditures;
  - allow a deduction for exploration and development expenses incurred in connection with "farm-in" arrangements;
  - delete terms such as "proper", "necessarily" and "paid by the operator";
  - tighten up terminology throughout the Act to ensure consistency (e.g. operator, profit, processing plant);

- amend the definition of mineral substance to include tailings; and
- amend the definition of processing to include manufacturing in Canada.

- Before the introduction of the bill, a draft of the legislation will be made available to the mining industry and other interested parties for comment.

All enquiries or submissions regarding the proposed changes to the Mining Tax Act should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
4th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Z2
(416) 965-6869

or

Mining Taxation and OMEP Office
Ministry of Northern Affairs and Mines
Queen's Park
Toronto, Ontario
M7A 1W3
(416) 965-1062

A3: Small Business Development Corporations

The following changes will be made to the Small Business Development Corporations (SBDC) Program:

- The allocated budget for payment of incentive grants and tax credits will be increased by $5 million, from $25 million to $30 million. The allocation will be distributed amongst the three funds as follows:

  $9 million for the North and East Fund;

  $6 million for the New Enterprises Fund; and

  $15 million for the General Investments Fund.

- The percentage rate of payment of grants and tax credits for investors purchasing newly-issued shares of SBDCs intending to invest outside Northern and Eastern Ontario will be reduced from 30 per cent to 25 per cent.

- Incentive payments equal to 30 per cent of the value of new share issues will continue to apply in respect of SBDC shares fully paid for prior to October 24, 1985.

- The definition of eligible small business will be expanded to include computer software development. Eligible business activity will involve the development of computer application or system software programs that are for sale, lease or licensing by the small business and are ready for use by any one of many product users without significant modification, provided that employees of the small business carry out substantially all of the phases of research, programming and testing.

- The following changes will apply only to SBDCs investing in Northern and Eastern Ontario:

  - The minimum capital requirement for an SBDC will be reduced from $100,000 to $50,000.

  - An SBDC will be permitted to invest in small businesses which have business dealings with shareholders of the SBDC so long as the SBDC has no fewer than 5 shareholders, none of which owns more than 20 per cent of the outstanding shares (as opposed to the general rule of 10 shareholders with no more than 10 per cent).

  - The definition of eligible small business will be expanded to include small businesses primarily engaged in the provision of services ancillary to the mining and forestry industries, such as transportation, contract drilling, machinery and equipment rental and leasing, engineering and other scientific and technical services.

Effective: the day following Royal Assent to enabling legislation.

All enquiries regarding SBDC changes should be directed to:

Taxation Policy Branch
Ministry of Treasury and Economics
4th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Z2
(416) 965-6869

or

SBDC Program
Ministry of Revenue
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9
(416) 433-6330

For telephone enquiries in Toronto call 965-1160, extension 6330.

A4: Summary of Revenue Changes

Revenue Changes: Fiscal Impact Summary
($ million)

	1985-86	1986-87
Personal Income Tax	28	321
Retail Sales Tax	–7	–40
Alcohol and Tobacco Tax	20	64
Fuel Tax	12	79
Fees and Licences	11	40
Corporations Tax	–15	205
Land Transfer Tax	6	30
TOTAL	**55**	**699**

Budget Paper B Economic Outlook

Table of Contents

Output 36

Employment 37

Prices 37

External Environment 37

The Ontario economy has shown strong growth so far in 1985. Continued expansion is expected for the remainder of the year and in 1986. Job creation is forecast to continue at a healthy pace and inflation is expected to remain moderate.

There are several factors which account for continued growth in 1986. Business investment remains a major source of strength, particularly in commercial and industrial construction. Housing construction will continue to respond well to the reduction of mortgage rates. Consumer demand will also contribute to growth, though increases will be somewhat less than in recent years. Exports, which were the prime engine of economic growth in 1983-84, will contribute marginally to growth in 1986.

The details of the current forecast follow.

Output

Real Gross Provincial Product is forecast to grow by 4.5 per cent in 1985 and 2.4 per cent in 1986.

Business non-residential investment has increased rapidly in 1985 and continued strong growth is expected in 1986. The capital expansion, while occurring in most sectors of the economy, is being led by manufacturing, especially the transportation equipment, primary metal and non-metallic mineral products industries.

Residential construction is also expected to strengthen. Housing starts are forecast to be 56,500 this year, rising to 58,000 in 1986.

Continued job creation and moderate increases in wages and salaries will lead to personal income growth of 6.6 per cent, following 1985 growth of 8.3 per cent. This will stimulate further growth in consumer spending. Retail sales are forecast to rise by 6.5 per cent in 1986, following growth of 10.3 per cent this year.

The economy is also expected to benefit from further gradual reductions in interest rates. The Bank of Canada has taken advantage of recent upward pressure on the Canada-U.S. exchange rate to reduce the differential between Canadian and U.S. interest rates. Continued international efforts to reduce the U.S. exchange rate against other major currencies offer the prospect of even lower U.S. interest rates, and correspondingly lower Canadian rates.

The expansion of Ontario's exports was curtailed early this year by the slow growth of the American economy. However, the U.S. has begun to emerge from its slowdown. This will help to sustain Ontario exports, although growth will still be less than in 1985. Imports will also increase at a more moderate pace in 1986.

Employment

Further improvement is expected in the Ontario labour market. Job creation of 152,000 is forecast for 1985; the unemployment rate is expected to average 8.2 per cent.

Continued growth in employment and further reductions in both the number of people unemployed and the unemployment rate are expected for 1986. Job creation of 108,000 will contribute to a decline in the unemployment rate to an average 7.7 per cent for the year.

Prices

The inflation outlook remains positive due to relatively stable commodity prices, continued moderation in wage demands, and the prospect of stable or declining Canadian oil prices. CPI inflation is expected to average 4.1 per cent in 1985 and 4.4 per cent in 1986.

External Environment

Ontario's economic performance is significantly influenced by economic conditions outside the province, especially those in the United States and in the rest of Canada. Table 1 presents the highlights of the economic outlook for Ontario, Canada and the United States.

The Ontario, Canadian and U.S. Economies: 1984 to 1986 Table 1
(per cent)

	Ontario			Canada			U.S.		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
Real Growth	6.5	4.5	2.4	5.0	4.0	2.3	6.8	2.3	2.5
Inflation	4.4	4.1	4.4	4.4	4.1	4.4	4.3	3.6	3.8
Unemployment Rate	9.1	8.2	7.7	11.3	10.7	10.3	7.5	7.2	7.4
Year-end Prime Rate	11.25	10.0	9.25	11.25	10.0	9.25	10.75	9.5	9.0

Source: Ontario Treasury.

U.S. economic growth has slowed from the vigorous pace achieved in 1984. This slowdown was largely the result of the deteriorating U.S. trade position. However, the prospects for the U.S. economy are brighter for the remainder of 1985 and for 1986.

The main elements which are expected to generate a resumption of U.S. growth are in place. The Federal Reserve Board has permitted sufficient monetary expansion to sustain stronger economic growth. Interest rates have declined, stimulating consumer demand and residential construction. In addition, the U.S. dollar has depreciated significantly since early 1985

against the currencies of Japan and the major European countries. This decline has been encouraged and consolidated by the recent Group of Five agreement and should strengthen American trade performance.

The Group of Five agreement realigning international exchange rates has coincidentally had the effect of improving Ontario's competitive position. Since the Canada-U.S. exchange rate has remained stable, the price of Canadian goods has fallen in world markets in comparison to goods produced in Japan and Europe.

Within Canada, continued weakness in commodity prices has adversely affected the growth of other provincial economies. In addition, the important agricultural sectors of the western provinces have suffered from poor growing conditions for the second consecutive year. For Canada as a whole, real Gross National Product is forecast to rise by 2.3 per cent in 1986, down from the 4.0 per cent growth expected in 1985.

Table 2 provides a detailed summary of the Ontario economic outlook.

The Ontario Economy: 1984 to 1986 — Table 2

	1984	1985	1986	84/83	85/84	86/85
	($ billion)			(per cent)		
Total Output						
Gross Provincial Product	162.1	175.1	186.1	9.5	8.0	6.3
GPP (Constant 1971 dollars)	54.3	56.8	58.2	6.5	4.5	2.4
Investment						
Machinery and Equipment	10.7	12.4	13.3	7.8	15.4	7.7
Non-Residential Construction	5.8	6.6	7.4	14.0	14.3	11.8
Residential Construction	6.2	6.9	7.6	6.6	12.4	9.4
Other Components of Demand						
Housing Starts - Units (000s)	48.2	56.5	58.0	–	–	–
Retail Sales	43.5	47.9	51.0	10.2	10.3	6.5
Exports	63.4	69.1	73.1	26.6	9.1	5.7
Imports	51.6	57.4	61.4	29.9	11.3	6.9
Income						
Personal Income	141.7	153.5	163.6	8.7	8.3	6.6
Corporate Profits (before taxes)	13.1	14.1	15.0	20.0	8.2	6.5
Prices						
Consumer Price Index	–	–	–	4.4	4.1	4.4
Jobs						
Labour Force (000s)	4,666	4,788	4,879	2.1	2.6	1.9
Employment (000s)	4,243	4,395	4,503	3.6	3.6	2.5
Unemployment Rate (% of labour force)	9.1	8.2	7.7	–	–	–

Source: Ontario Treasury.

Budget Paper C
A Realistic Financial Presentation

Table of Contents

Introduction 40
Budget Actions 40
Ontario's Investment in Suncor 40
Ontario Land Corporation 40
Repayment of Obligations to the Province 41
The Ontario Universities Capital Aid Corporation 41
The Ontario Education Capital Aid Corporation 42
Ontario Housing Corporation 42
Loans to Public Hospitals 42
Investment in Water Treatment and Waste Control Facilities 43
Provincial Equity in Crown Corporations 43
Improvements to Accounting Policy 43
Other Adjustments 44
Summary 44
Fiscal Plan 46
Ontario Public Service Staffing Levels 47
Financial Tables 49

Introduction

This Paper:

- describes the actions taken in the Budget to remove certain financial assets and related transactions from the Province's accounts to provide an improved presentation of the Province's financial affairs;
- describes the improvements to accounting policy underlying these Budget actions;
- details the 1985-86 Budget Plan; and
- contains detailed Financial Tables.

Budget Actions

Ontario's Investment in Suncor

In 1981, the Government purchased a 25 per cent shareholding in Suncor Inc. for $650 million through Ontario Energy Resources Limited, a subsidiary of the Ontario Energy Corporation. The share purchase was financed by a $325 million cash advance from the Province to the Ontario Energy Corporation and a $325 million, 10-year, 14.357 per cent note due to The Sun Note Company (the Sun note). The Province has advanced a further $21 million to assist with principal repayments on the Sun note, bringing the recorded investment in the Ontario Energy Corporation for Suncor shares to $346 million. To date, the Province, through the Ontario Energy Corporation, has borne $150 million in interest costs on the 10-year note.

In the future, the Province is obligated to pay the Ontario Energy Corporation the funds needed to meet the balance of principal and interest payments due on the Sun note to its maturity in 1991. This would amount to $420 million, less any Suncor dividends that might be received.

Two actions are being taken to clear the Province's books: the $346 million investment in the Ontario Energy Corporation is being written off and the Province's remaining obligation through the Ontario Energy Corporation for the Sun note will be discharged at an estimated cost of $305 million.

The shares continue to be held by Ontario Energy Resources Limited. As noted in the Statement, the current value of the shares is significantly below the original purchase price. A review is underway to determine the best method of dealing with the Suncor shares. This review will assess all of the disposal options and the shares will be sold as soon as financially prudent.

Ontario Land Corporation

The Province's loans to the Ontario Land Corporation are listed at $872 million as of March 31, 1985. This total reflects $453 million that has been channelled into land banks and $419 million in mortgage loans.

The current appraised value of the land holdings is estimated at $271 million, $182 million less than the Province's recorded advance to the

Ontario Land Corporation for that purpose. The Government would not fully recover the $453 million lent for these land banking activities when these holdings are eventually sold. The $182 million loss in value is being written off.

Ownership of the Ontario Land Corporation land holdings will be transferred to the appropriate ministries or sold as market conditions permit. Consistent with Ontario's policy on the recording of physical assets, the $271 million is being expensed; this action is designed to provide accounting treatment consistency and in no way reflects on the recoverable value of the land holdings.

Furthermore, a large number of the Corporation's mortgage loans were made with terms and conditions not prevailing in today's market. The divestiture of the Corporation's mortgages is being reviewed and will proceed in a prudent and business-like manner. It is estimated that the Province will be unable to recover the full value of these mortgages. The eventual loss is currently estimated at $37 million. Accordingly, the recorded value of the advances for mortgage activities is being reduced.

Repayment of Obligations to the Province

The Ontario Universities Capital Aid Corporation

From 1964 until March 1978, The Ontario Universities Capital Aid Corporation (TOUCAC) advanced funds for capital construction to universities, colleges, the Art Gallery of Ontario, the Royal Ontario Museum and the Ontario College of Art. These funds were lent to TOUCAC by the Province and recorded as a financial asset. The amount of such loans outstanding at the end of this fiscal year will be $969 million.

However, because the ultimate users of these funds did not have an independent capacity to meet their loan payments to TOUCAC, the Province paid, on their behalf, the full amount of scheduled repayments. In turn, this allowed the Corporation to meet its own repayments to the Province. In effect, the Province provided the funds to discharge this obligation.

In 1978, the method of funding was changed to a system of direct grants. However, no action was taken at that time to deal with the advances made prior to 1978 through the Corporation, so that today Ontario's financial records show the Province still granting money to colleges and universities, whereas this is actually a partial repayment of the loan. The Provincial Auditor has commented on this practice in reports from 1979 to 1984.

The Ontario Universities Capital Aid Corporation is being eliminated. The debentures held by the Corporation are being transferred to the Treasurer, written off and the Provincial advances cleared from Ontario's financial statements. A residual of $5 million in direct municipal obligations, in the form of debentures related to library construction, is being retained and administered by the Ontario Municipal Improvement Corporation.

The Ontario Education Capital Aid Corporation

The Ontario Education Capital Aid Corporation (TOECAC) is similar to The Ontario Universities Capital Aid Corporation. From 1966 until March 1980, TOECAC was used as a means to provide capital expansion funds to school boards. Rather than grant the funds directly, the practice was used of lending to TOECAC to lend to the school boards. The Province's advances to the Corporation were recorded as financial assets.

As of December 31, 1985, advances to TOECAC will be $757 million, only part of which is recoverable.

Unlike the colleges and universities, which were totally supported by the Province in meeting their loan repayments, the school boards are able to raise funds for repayment through property taxes. The Province's General Legislative Grants to school boards recognize, for grant purposes, the debt repayment cost on $535 million. The Province is supplying over 80 per cent of the cost of making repayments on these recognized loans, a practice which was also the subject of observations by the Provincial Auditor in reports from 1979 to 1984.

To resolve this anomaly, TOECAC is being wound down and its debentures transferred to the Treasurer. The recorded value of the financial asset is being reduced by $437 million, which is the portion of school board debt to the Corporation carried by the Province. The residual portfolio of TOECAC will be administered by the Ontario Municipal Improvement Corporation. In future years, school board spending on debt charges, and the related grants, will decline by identical amounts. Both grant processes and loan repayment arrangements will be simplified and clarified.

Ontario Housing Corporation

The Ontario Housing Corporation (OHC) operates housing projects financed with advances from the Province and the federal government.

The Corporation amortizes the cost of these projects over periods of up to 50 years. The annual interest cost and principal repayments of these loans are treated as operating costs of these units and, in turn, are eligible for subsidies from the Province and Central Mortgage and Housing Corporation. This is another situation in which the Province makes repayments on Provincial obligations, in this case through the operating subsidies to OHC. The Province's share of the combined advances to OHC totals $184 million and is being written off.

Loans to Public Hospitals

In a similar category are loans to public hospitals, which totalled $125 million at September 30, 1985. These loans were made before 1978 and recorded as assets. Since then, new hospital construction has been financed by direct grants. Once again, most of the repayment of the Province's loans is made by the Province. From 1981 to 1984, the Provincial Auditor noted the practice of giving grants to hospitals for a large portion of the loan

costs. The value of the Province's loans to public hospitals is being reduced by the $69 million portion funded by the Province.

Investment in Water Treatment and Waste Control Facilities

Over the past two decades, the Province has constructed and financed extensive water treatment and waste control facilities that are operated by the Province to serve municipalities. The investment is recorded in Ontario's financial statements and, by the end of this fiscal year, will be over $1,067 million. This total includes $352 million designated as "Provincial assistance" and there is no intention that this portion be recovered from municipalities. This amount of these assets is being written off.

In addition, part of the municipal obligation in this recorded asset is deemed to be uncollectable since the Province undertook a number of projects far beyond the financial capability of local communities. The Province will now assume the excess debt load in these instances.

The Budget makes provision for writing off part of the outstanding local share of those assets where overbuilding has created unrealistic local government obligations. To this end, a further $175 million is being written off. Details of these write-offs will be finalized between the Ministry of the Environment and the affected communities.

Provincial Equity in Crown Corporations

It is not Ontario's practice to record its equity in Crown corporations on the balance sheet. There are three exceptions, however, where the Province has provided funding to Crown corporations through the purchase of shares. In this category are share holdings of $7 million in the Ontario Development Corporations, $37 million in the Urban Transportation Development Corporation and, by year-end, about $80 million in the Ontario Energy Corporation related to energy projects other than Suncor. These share holding values are being removed from the balance sheet and will be recorded in future at a nominal value of $1. This action is designed to provide consistent accounting treatment and in no way reflects on the actual value of the assets.

Similarly, although not a shareholding, the Province has a recorded investment of $25 million in the Liquor Control Board of Ontario (LCBO). At one time, this investment represented the retained earnings of the LCBO. The practice of matching this value to the actual retained earnings ended almost 20 years ago. It is no longer appropriate to record this on the balance sheet.

Improvements to Accounting Policy

The actions taken in the Budget improve the presentation of the Province's financial affairs.

The first improvement removes from the Province's books financial assets that represent Provincial obligations to itself. One example of the

application of this policy is the action taken in the Budget on The Ontario Universities Capital Aid Corporation.

The second improvement requires that the value of financial assets be periodically adjusted when it can be reasonably determined that the value of the underlying security for advances has diminished, and when the Province's asset is not likely to be fully recovered. One example of the application of this policy is the action taken in this Budget on the advances made to the Ontario Land Corporation in respect of mortgage loans.

The third improvement deals with investments made in Crown corporations. When the investment takes the form of an equity holding, it will be carried on the books at the nominal value of $1. An example of the application of this policy is the action taken in the Budget on the investment made in the Urban Transportation Development Corporation.

Other Adjustments

A number of other one-time adjustments are also being made in the Budget to accommodate funding commitments of $90 million for municipal transit, $15 million for hospital programs and $108 million to restore the timing of school board payments.

Summary

As a result of these actions, future annual Estimates will provide a more accurate assessment of the level of support for current activities and permit better analysis and management of transfer payments.

Table 1 illustrates the impact of the extraordinary, non-recurring adjustments on the Budget Plan.

Impact of Extraordinary Adjustments on Budget Plan Table 1
($ million)

	1984-85	Budget Plan 1985-86	Impact of Extra-ordinary Adjustments	Adjusted 1985-86
Revenue	25,196	27,302	3,181	30,483
Expenditure	26,898	28,997	3,699	32,696
Net Cash Requirements	1,702	1,695	518	2,213

Details of the individual Budget actions are contained in Table 2.

Summary of Extraordinary Adjustments Table 2
($ million)

	1985-86		
	Budgetary Expenditure	Non-Budgetary Revenue	Impact on Net Cash Requirements
Suncor			
Ontario Energy Corporation:			
Write-off advance and equity	346	346	–
Discharge of Sun note obligation	305	–	305
Ontario Land Corporation:			
Mortgage valuation write-down	37	37	–
Land valuation write-down	182	182	–
Land transferred to ministries	271	271	–
Repayment of Obligations to the Province			
Ontario Universities Capital Aid Corporation: *debt forgiveness*	969	969	–
Ontario Education Capital Aid Corporation: *debt forgiveness*	437*	437	–
Ontario Housing Corporation: *debt forgiveness*	184	184	–
Loans to Public Hospitals: *debt forgiveness*	69	69	–
Investment in Water Treatment and Waste Control Facilities:			
Provincial assistance to municipalities	352*	352	–
Relief of excess debt burden of municipalities	175*	175	–
Provincial Equity in Crown Corporations Write-Down			
Ontario Development Corporation	7	7	–
Urban Transportation Development Corporation	37	37	–
Ontario Energy Corporation	80	80	–
Liquor Control Board of Ontario	25	25	–
Other Adjustments			
Municipal Transit: *Unfunded commitments*	90*	–	90
Hospitals: *Unfunded commitments*	15	–	15
Ontario Development Corporations: *Uncollectable debts*	10	10	–
School Boards: *Restoration of cash advances to 7 per cent*	108*	–	108
TOTAL	**3,699**	**3,181**	**518**

* Extraordinary adjustments which affect transfers to Local Governments.

Table 3 illustrates the overall changes between the Budget Plan and last year's actual results.

1985-86 Budget Plan **Table 3**
($ million)

	1984-85	Budget Plan 1985-86	Change ($ million)	Change (%)
Revenue	25,196	27,302	2,106	8.4
Expenditure	26,898	28,997	2,099	7.8
Net Cash Requirements	1,702	1,695	(7)	
Extraordinary Adjustments		518		
Net Cash Requirements after adjustments		2,213		

Fiscal Plan

Net cash requirements for 1985-86 are estimated at $2,213 million. This includes the impact of $518 million in extraordinary, non-recurring adjustments detailed in Table 2.

The Budget Plan reflects net cash requirements of $1,695 million. This is lower than last year's level of $1,702 million.

As shown in Table C1, 1985-86 net cash requirements of $2,213 million will be financed through non-public borrowings and a decrease in liquid reserves. Borrowings from the Canada Pension Plan and the Teachers' Superannuation Fund will amount to $2,350 million and a $217 million reduction in liquid reserves. Of these funds, $323 million will be used to retire public borrowings and $31 million will be used to retire non-public borrowings. Ontario's Treasury Bill program will be continued.

Table 4 details capital expenditures of $2,278 million for 1985-86. They will be $282 million greater than Ontario's net public and non-public borrowings and $19 million greater than last year's capital spending.

Capital Investments **Table 4**
($ million)

	1983-84	1984-85	Budget Plan 1985-86
Transportation	1,236	1,188	1,292
Health Care and Social Services	220	340	300
General Public Works	230	173	160
Environment	211	207	199
Education	148	156	154
Recreation and Culture	96	98	115
Industrial and Technological Development	103	97	58
TOTAL	**2,244**	**2,259**	**2,278**

Ontario Public Service Staffing Levels

As a result of the implementation of the provisions of the Young Offenders Act and the need for additional environmental inspectors, the number of Provincial public servants is forecast to increase by less than one per cent, or approximately 700 positions this year.

Table 5 compares the average monthly staffing levels with the staffing level on March 31 for each fiscal year.

Ontario Public Service:
Total Staffing, 1977-78 to 1984-85 — **Table 5**

Fiscal Year	Total Staffing March 31	12-Month Average
1977-78	84,175	89,995
1978-79	83,422	87,270
1979-80	82,523	87,333
1980-81	82,159	86,744
1981-82	81,826	85,751
1982-83	81,396	85,977
1983-84	80,395	84,908
1984-85	80,142	84,566

Table 6 illustrates staffing levels recorded each month during 1984-85 ranging from a low of 80,052 in December 1984 to a high of 93,809 in July of 1984. This distribution is typical of the annual pattern of monthly staffing levels reflecting high summer employment.

Ontario Public Service:
Total Staffing, 1984-85 — **Table 6**

		Classified Staff	Unclassified Staff	Crown Employees	Month-End Total
1984	April	65,723	13,413	1,497	80,633
	May	65,685	19,859	1,505	87,049
	June	65,643	22,789	1,500	89,932
	July	65,591	26,712	1,506	93,809
	August	65,488	26,451	1,501	93,440
	September	65,431	19,551	1,459	86,441
	October	65,446	14,700	1,462	81,608
	November	65,533	13,861	1,456	80,850
	December	65,514	13,086	1,452	80,052
1985	January	65,559	13,294	1,450	80,303
	February	65,632	13,458	1,447	80,537
	March	65,711	12,977	1,454	80,142

Financial Tables

Table C1	Statement of Provincial Net Cash Requirements and Related Financing	50
Table C1A	Statement of Provincial Net Cash Requirements and Related Financing (1984 Budget Format)	51
Table C2	Revenue Inflows	54
Table C3	Expenditure Outflows	55
Table C4	Trust Accounts	56
Table C5	Loans and Investments	57
Table C6	Transfers to Local Governments and Agencies	58
Table C7	Ontario Public Service Staffing Levels	59
Table C8	Ten-year Review of Selected Financial and Economic Statistics	62
Chart C1	Major Revenue Sources: Per Cent of Total, 1981-82 to 1985-86	52
Chart C2	Expenditure Functions: Per Cent of Total, 1981-82 to 1985-86	53
Chart C3	Months of Revenue Required to Repay Funded Debt: 1981-82 to 1985-86	60
Chart C4	Funded Debt as a Per Cent of Gross Provincial Product: 1981-82 to 1985-86	60
Chart C5	Increasing Efficiency in the Ontario Public Service: 1981 - 1985	61
Chart C6	Expenditure and Net Cash Requirements as a Per Cent of Gross Provincial Product: 1981-82 to 1985-86	61
Chart C7	The Budget Dollar: Revenue, 1985-86	64
Chart C8	The Budget Dollar: Expenditure, 1985-86	65

Statement of Provincial Net Cash Requirements and Related Financing

Table C1

($ million)

	1983-84	1984-85	Budget Plan 1985-86
Budgetary Transactions			
Revenue	21,313	23,765	25,696
Expenditure	24,553	26,431	28,496
Budgetary Deficit (before extraordinary adjustments)	3,240	2,666	2,800
Extraordinary Adjustments: Expenditure	–	–	3,699
Budgetary Deficit	3,240	2,666	6,499
Non-Budgetary Transactions (net)			
Trust Accounts	678	698	832
Loans and Investments	273	266	273
Non-Budgetary Surplus (before extraordinary adjustments)	951	964	1,105
Extraordinary Adjustments: Revenue	–	–	3,181
Non-Budgetary Surplus	951	964	4,286
NET CASH REQUIREMENTS (C1A) (before extraordinary adjustments)	**2,289**	**1,702**	**1,695**
NET CASH REQUIREMENTS	**2,289**	**1,702**	**2,213**
Financing			
Non-Public Borrowing			
Canada Pension Plan	1,201	1,134	1,189
Teachers' Superannuation Fund	786	1,065	1,265
Retirements	(10)	(11)	(31)
Net Non-Public Borrowing	1,977	2,188	2,313
Public Borrowing			
Treasury Bills/Debenture Issues	1,150	–	–
Retirements	(267)	(98)	(100)
Net Public Borrowing	883	(98)	(100)
Change in Liquid Reserves	571	388	(97)
TOTAL FINANCING	**2,289**	**1,702**	**2,213**

SUPPLEMENTARY TABLE

Statement of Provincial Net Cash Requirements and Related Financing (1984 Budget Format) Table C1A
($ million)

BEFORE EXTRAORDINARY ADJUSTMENTS

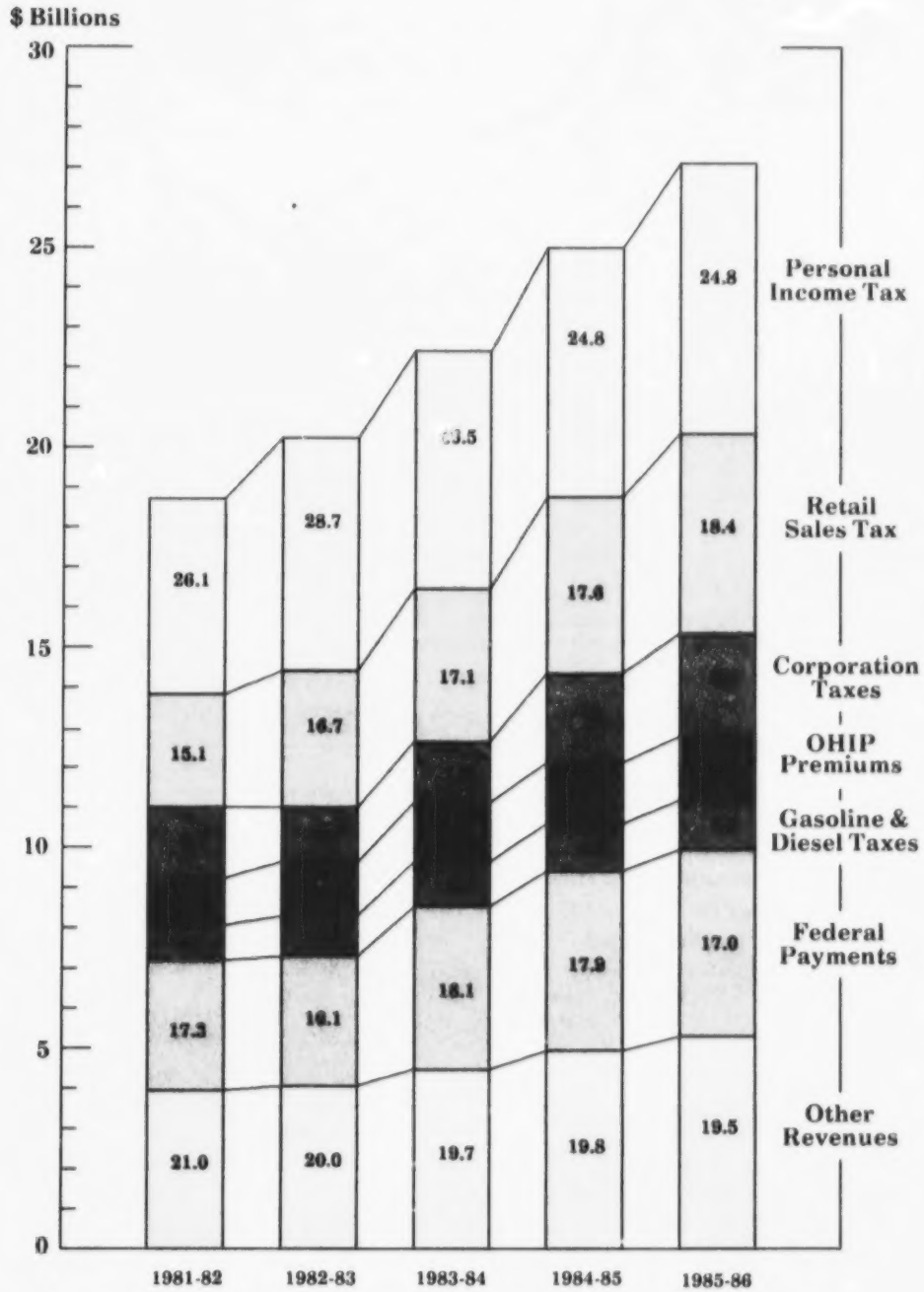
	1983-84	1984-85	Budget Plan 1985-86
Consolidated Revenue Fund Inflows			
Budgetary Revenue	21,313	23,765	**25,696**
Deposits into Trust Accounts	885	996	**1,176**
Repayments of Loans	449	435	**430**
Total Inflows	22,647	25,196	**27,302**
Consolidated Revenue Fund Outflows			
Budgetary Expenditure	24,553	26,431	**28,496**
Payments out of Trust Accounts	207	298	**344**
Loans and Investments	176	169	**157**
Total Outflows	24,936	26,898	**28,997**
NET CASH REQUIREMENTS (before extraordinary adjustments)	**2,289**	**1,702**	**1,695**

AFTER EXTRAORDINARY ADJUSTMENTS

	1983-84	1984-85	Budget Plan 1985-86
Consolidated Revenue Fund Inflows			
Budgetary Revenue	21,313	23,765	**25,696**
Deposits into Trust Accounts	885	996	**1,176**
Repayments of Loans	449	435	**430**
Extraordinary Adjustments: Revenue	–	–	**3,181**
Total Inflows	22,647	25,196	**30,483**
Consolidated Revenue Fund Outflows			
Budgetary Expenditure	24,553	26,431	**28,496**
Payments out of Trust Accounts	207	298	**344**
Loans and Investments	176	169	**157**
Extraordinary Adjustments: Expenditure	–	–	**3,690**
Total Outflows	24,936	26,898	**32,686**
NET CASH REQUIREMENTS (after extraordinary adjustments)	**2,289**	**1,702**	**2,203**

Major Revenue Sources*: Per Cent of Total 1981-82 to 1985-86

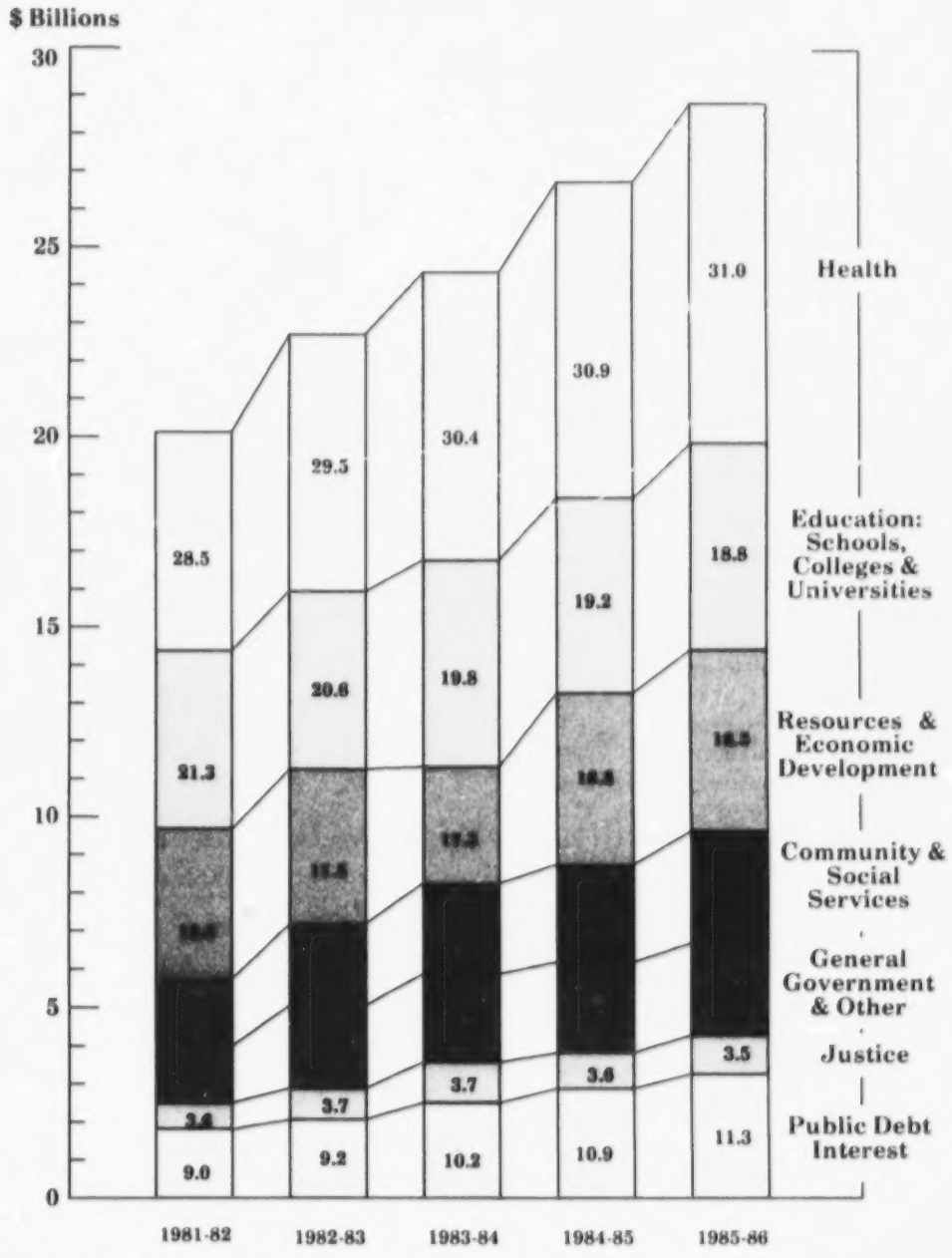
Chart C1



*Excluding Extraordinary Adjustments

Expenditure Functions*: Per Cent of Total
1981-82 to 1985-86

Chart C2



*Excluding Extraordinary Adjustments

Revenue Inflows

($ million)

Table C2

	1983-84	1984-85	Budget Plan 1985-86
Taxation Revenue			
Personal Income Tax[1]	5,994	6,253	**6,777**
Retail Sales Tax	3,876	4,426	**5,019**
Reciprocal Taxation	64	69	**80**
Corporation Taxes	1,583	2,248	**2,641**
Mining Profits Tax	33	65	**55**
Gasoline Tax	932	961	**1,020**
Motor Vehicle Fuel Tax	212	225	**242**
Tobacco Tax	542	583	**561**
Land Transfer Tax	132	139	**162**
Public Utilities Income Tax	(13)	51	**75**
Race Tracks Tax	62	61	**64**
Other Taxation	10	11	**12**
	13,427	15,092	**16,708**
Other Revenue			
OHIP Premiums	1,479	1,586	**1,638**
LCBO Profits	520	602	**682**
Interest on Investments	454	505	**485**
Vehicle Registration Fees	287	329	**349**
LLBO Fees, Licences and Permits	236	253	**268**
Other Fees and Licences	215	223	**235**
Royalties	83	136	**152**
Ontario Lottery Profits	118	122	**132**
Utility Service Charges	97	111	**111**
Fines and Penalties	103	85	**90**
Sales and Rentals	56	80	**71**
Miscellaneous	141	132	**132**
	3,789	4,164	**4,345**
Payments from the Federal Government			
Established Programs Financing	2,548	2,772	**2,850**
Extended Health Care Services	333	359	**384**
Canada Assistance Plan	845	938	**1,000**
National Training Act	157	168	**162**
Bilingualism Development	44	77	**56**
Vocational Rehabilitation	31	42	**37**
Other	139	153	**154**
	4,097	4,509	**4,643**
Total Budgetary Revenue	**21,313**	**23,765**	**25,696**
Deposits into Trust Accounts (C4)	885	996	**1,176**
Repayments of Loans (C5)	449	435	**430**
TOTAL INFLOWS (before extraordinary adjustments)	**22,647**	**25,196**	**27,302**
Extraordinary Adjustments (Table 2)	–	–	**3,181**
TOTAL INFLOWS	**22,647**	**25,196**	**30,483**

[1] Net of Tax Credits of $277 million, $289 million and $275 million for the 1983-84, 1984-85 and 1985-86 fiscal years.

Expenditure Outflows[1]
($ million)

Table C3

Ministry	1983-84	1984-85	**Budget Plan 1985-86**
Agriculture and Food	263	304	**374**
Attorney General	262	279	**286**
Citizenship and Culture	178	188	**214**
Colleges and Universities	1,842	1,934	**2,053**
Community and Social Services	2,402	2,604	**2,768**
Consumer and Commercial Relations	123	114	**122**
Correctional Services	226	245	**271**
Education	3,087	3,217	**3,385**
Energy	90	80	**82**
Environment	254	282	**334**
Government Services	369	381	**438**
Health	7,582	8,340	**8,945**
Housing	231	218	**251**
Industry, Trade and Technology	75	80	**82**
Intergovernmental Affairs	5	9	**7**
Labour	68	72	**75**
Legislative and Executive Offices	7	8	**8**
Management Board	14	17	**18**
Contingency Fund	–	–	**132**
Municipal Affairs	778	811	**859**
Natural Resources	404	434	**455**
Northern Affairs and Mines	157	158	**163**
Office for Women's Issues	2	4	**10**
Revenue	620	651	**688**
Skills Development	297	304	**418**
Solicitor General	291	310	**336**
Tourism and Recreation	141	159	**146**
Transportation and Communications	1,541	1,587	**1,553**
Treasury and Economics			
Own Account	24	26	**26**
Capital Contingency	295	269	**253**
Pensions	347	378	**434**
Public Debt Interest	2,534	2,922	**3,278**
Board of Internal Economy	44	46	**82**
Estimated Year-end Savings	–	–	**(50)**
Total Budgetary Expenditure	**24,553**	**26,431**	**28,496**
Payments out of Trust Accounts (C4)	207	298	**344**
Loans and Investments (C5)	176	169	**157**
TOTAL OUTFLOWS (before extraordinary adjustments)	**24,936**	**26,898**	**28,997**
Extraordinary Adjustments (Table 2)	–	–	**3,699**
TOTAL OUTFLOWS	**24,936**	**26,898**	**32,696**

[1] Comparative figures restated to conform with current Government structure.

Trust Accounts
($ million)

Table C4

	1983-84	1984-85	Budget Plan 1985-86
Deposits			
Public Service Superannuation Fund	513	565	663
Superannuation Adjustment Fund	219	248	280
Provincial Judges Benefits Fund	–	26	9
OPP Supplementary Benefit Account	–	1	9
Other Pensions	4	4	4
Interprovincial Lotteries Trust Fund	99	128	143
Province of Ontario Savings Office	13	–	31
Motor Vehicle Accident Claims Fund	10	11	11
Other	27	13	26
Deposits into Trust Accounts	**885**	**996**	**1,176**
Payments			
Public Service Superannuation Fund	124	164	168
Superannuation Adjustment Fund	49	63	89
Provincial Judges Benefits Fund	–	–	3
OPP Supplementary Benefit Account	–	–	7
Other Pensions	1	2	3
Interprovincial Lotteries Trust Fund	12	21	66
Motor Vehicle Accident Claims Fund	14	9	4
Province of Ontario Savings Office	–	32	–
Other	7	7	4
Payments out of Trust Accounts	**207**	**298**	**344**
TRUST ACCOUNTS – NET DEPOSITS	**678**	**698**	**832**

Loans and Investments
($ million)

Table C5

	1983-84	1984-85	Budget Plan 1985-86
Loans and Investments			
Environmental Projects	68	56	35
Ontario Energy Corporation	29	28	30
Ontario Development Corporations	27	27	28
Tile Drainage Debentures	24	23	24
Metro Toronto Convention Centre	–	11	–
Ontario Land Corporation	6	5	7
Other	22	19	33
Loans and Investments	**176**	**169**	**157**
Repayments			
Education Capital Aid Corporation	92	98	104
Environmental Projects	94	74	85
Ontario Land Corporation	75	75	75
Universities Capital Aid Corporation	34	36	38
Ontario Development Corporations	55	41	32
Tile Drainage Debentures	19	20	22
Public Hospitals	16	15	15
Ontario Northland Transportation Commission	15	10	13
Crop Insurance Commission	11	24	–
Other	38	42	46
Repayments of Loans	**449**	**435**	**430**
LOANS AND INVESTMENTS – NET REPAYMENTS	**273**	**266**	**273**

Transfers to Local Governments and Agencies

Table C6

($ million)

	1983-84	1984-85	Budget Plan 1985-86
Conditional Transfers			
Grants to School Boards			
General Legislative Grants	2,898	3,029	3,186
School Capital Grants	65	61	72
Transportation			
Roads	491	508	523
Transit	278	322	290
Other	2	4	3
Social Assistance			
General Welfare Assistance	416	442	454
Homes for the Aged	171	182	187
Child Welfare	157	173	188
Day Nurseries	67	68	99
Other	9	9	11
Health			
Local Health Units	91	94	107
Other	26	32	30
Environment	91	110	125
Agriculture	81	105	106
Housing	46	45	48
Conservation Authorities	39	38	39
Library Boards	28	30	33
Recreation	31	23	44
Municipal Affairs	20	22	21
Northern Affairs	13	15	7
Other	77	57	28
	5,097	5,369	5,571
Unconditional Transfers			
General Support	217	236	251
Resource Equalization	186	129	130
Per Household - Policing	113	130	141
Per Household - General	97	101	103
Payments-in-lieu of Taxes	69	81	85
Northern Ontario Support	59	63	63
Revenue Guarantee	–	49	53
Other	19	10	12
	760	799	838
TRANSFERS TO LOCAL GOVERNMENTS*	**5,857**	**6,168**	**6,409**
Extraordinary Adjustments (Table 2)	–	–	1,162
TRANSFERS TO LOCAL GOVERNMENTS	**5,857**	**6,168**	**7,571**

* Before extraordinary adjustments.

Ontario Public Service Staffing Levels

March 31, 1985[1]

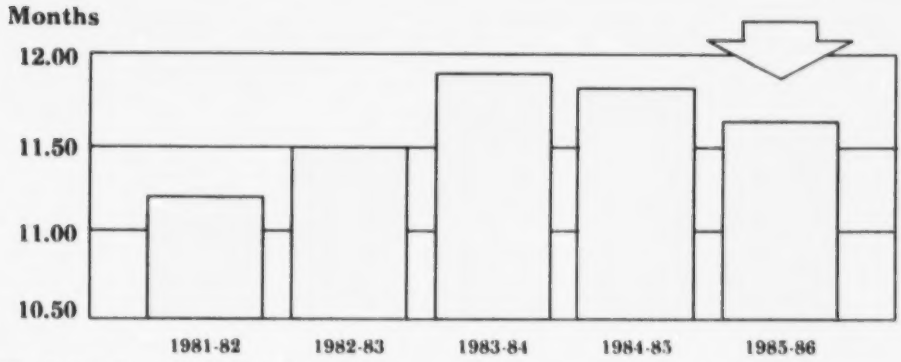
Table C7

Ministry	Classified Staff	Unclassified Staff	Other Crown Employees	Total	Change from 1984
Agriculture and Food	1,520	533	–	2,053	64
Attorney General	3,236	1,614	442	5,292	153
Citizenship and Culture	544	274	–	818	64
Civil Service Commission	191	40	–	231	–22
Colleges and Universities	499	80	2	581	7
Community and Social Services	9,287	1,787	–	11,074	–434
Consumer and Commercial Relations	1,726	348	512	2,586	81
Correctional Services	4,979	1,079	48	6,106	304
Education	1,421	511	417	2,349	7
Energy	176	79	1	256	–6
Environment	1,488	100	–	1,588	–14
Government Services	2,728	248	–	2,976	–9
Health	10,410	1,796	–	12,206	–57
Industry and Trade	410	111	3	524	23
Intergovernmental Affairs	76	13	–	89	–2
Labour	1,408	144	21	1,573	11
Legislative and Executive Offices	113	71	–	184	77
Management Board	78	25	–	103	24
Municipal Affairs and Housing	1,133	164	–	1,297	–9
Natural Resources	3,899	1,422	–	5,321	–148
Northern Affairs	170	52	–	222	–5
Ontario Development Corporations	151	12	–	163	–6
Policy Secretariats	71	86	1	158	–7
Revenue	3,806	268	–	4,074	7
Solicitor General	1,536	652	6	2,194	94
Tourism and Recreation	536	182	–	718	–131
Transportation and Communications	8,766	1,063	–	9,829	–473
Treasury and Economics	373	81	1	455	–7
O.P.P. Uniformed Staff and Security Guards	4,397	–	–	4,397	131
Environment Plant Operators	583	142	–	725	30
Total Staffing	65,711	12,977	1,454	80,142	–253
Short-term Job Creation	–	1,287	–	1,287	674
GRAND TOTAL	**65,711**	**14,264**	**1,454**	**81,429**	**421**

[1] Excludes staff of the Lieutenant Governor, Office of the Assembly, Ombudsman and Provincial Auditor.

Months of Revenue Required to Repay Funded Debt*: 1981-82 to 1985-86

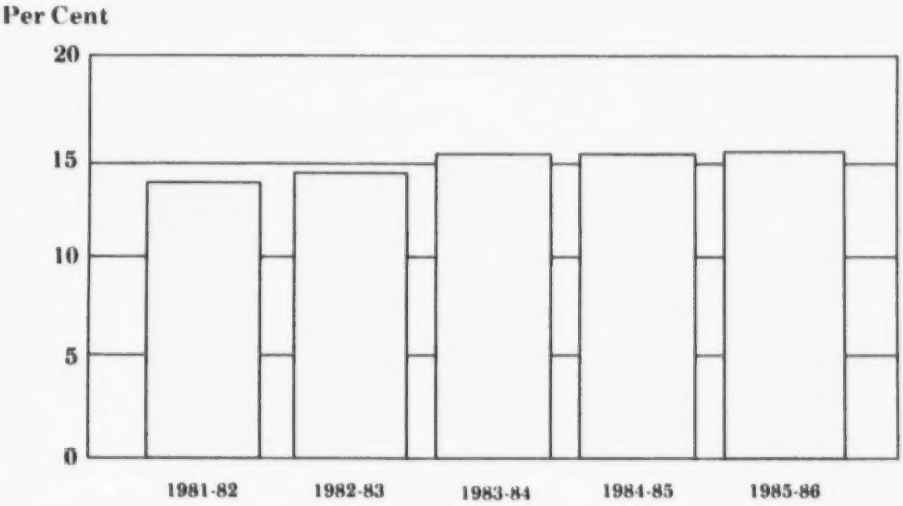
Chart C3



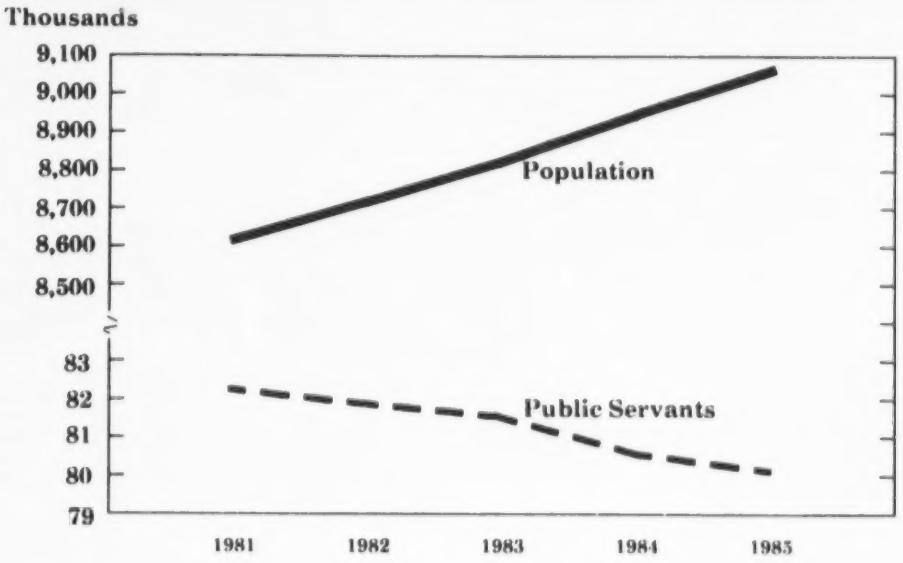
*Excluding Extraordinary Adjustments

Funded Debt as a Per Cent of Gross Provincial Product: 1981-82 to 1985-86

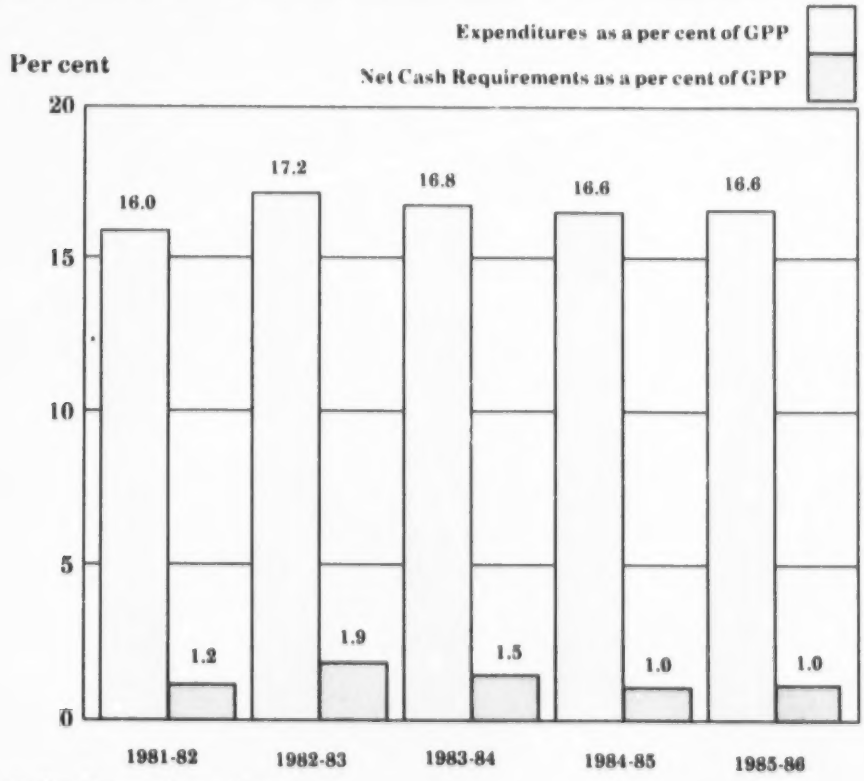
Chart C4



Increasing Efficiency in the Ontario Public Service: 1981 to 1985 — **Chart C5**



Expenditures and Net Cash Requirements As a Per Cent of Gross Provincial Product*: 1981-82 to 1985-86 — **Chart C6**



*Excluding Extraordinary Adjustments

Ten-Year Review of Selected Financial and Economic Statistics
($ million)

	1976-77	1977-78	1978-79	1979-80
Financial Transactions				
Revenue Inflows	11,148	11,782	13,233	15,246
Expenditure Outflows	12,467	13,544	14,413	15,830
Net Cash Requirements	1,319	1,762	1,180	584
Financial Position				
Funded Debt[1] (excluding Ontario Hydro)	10,895	12,364	14,037	15,196
Provincial Debt Transactions (net)	1,092	1506	1,652	1,133
Publicly-Held Debt	1,679	1,613	1,718	1,307
Gross Provincial Product (GPP) at Market Prices[2]	74,450	81,970	89,702	100,942
Personal Income[2]	61,074	67,417	74,835	83,480
Population - June (000s)	8,264	8,353	8,440	8,501
Funded Debt Per Capita (dollars)	1,318	1,480	1,663	1,788
Personal Income Per Capita (dollars)	7,390	8,071	8,867	9,820
Net Cash Requirements as a per cent of GPP	1.8	2.1	1.3	0.6
Funded Debt as a per cent of GPP	14.6	15.1	15.6	15.1
Total Expenditure as a per cent of GPP	16.7	16.5	16.1	15.7
Publicly-Held Debt as a per cent of GPP	2.3	2.0	1.9	1.3
Cumulative Net Borrowing for Ontario Hydro				
U.S.	2,651	3,284	4,141	4,506
C.P.P.	–	–	–	–
Contingent Liabilities (mainly Ontario Hydro)	6,303	6,557	7,096	7,904

[1] Funded Debt includes debentures, notes and Treasury Bills.

[2] Gross Provincial Product and Personal Income are calculated on a calendar year basis. The amounts appearing in a fiscal year column are for the preceding calendar year.

Note: All funds are quoted in Canadian dollars.

* Before extraordinary adjustments.

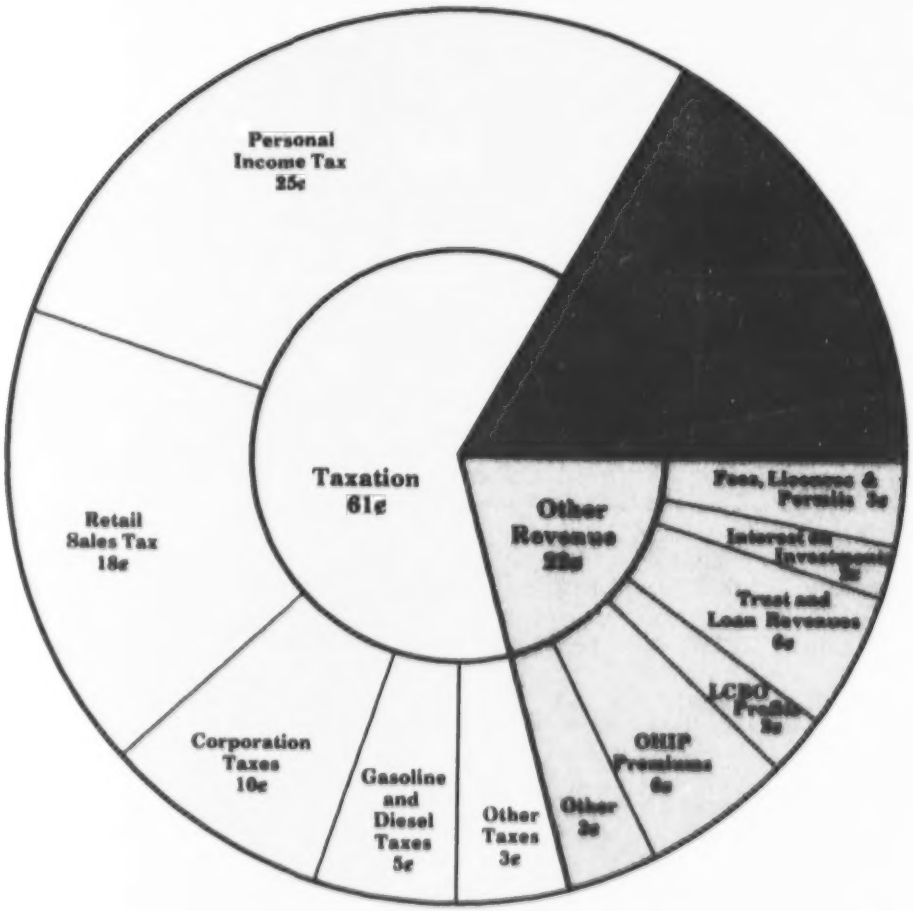
** After extraordinary adjustments.

N/A - not available.

Table C8

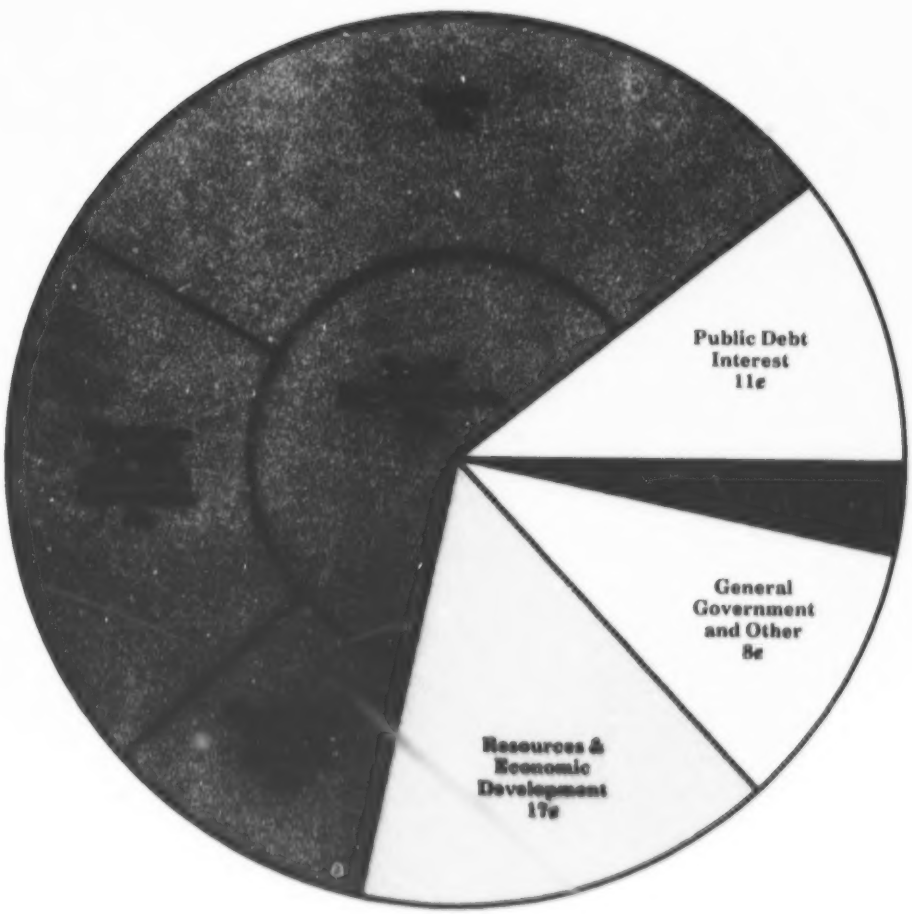
					Budget Plan	
1980-81	1981-82	1982-83	1983-84	1984-85	1985-86*	1985-86**
16,470	18,886	20,433	22,647	25,196	27,302	30,483
17,273	20,389	22,911	24,936	26,898	28,997	32,696
803	1,503	2,478	2,289	1,702	1,695	2,213
16,215	17,592	19,643	22,503	24,593	26,589	26,589
968	1,363	2,051	2,860	2,090	1,996	1,996
1,164	1,102	1,056	1,939	1,841	1,518	1,518
112,066	127,408	133,536	148,008	162,098	175,100	175,100
93,868	109,672	121,091	130,333	141,730	153,500	153,500
8,570	8,625	8,716	8,825	8,947	9,066	9,066
1,892	2,040	2,254	2,550	2,749	2,933	2,933
10,953	12,716	13,893	14,769	15,841	16,931	16,931
0.7	1.2	1.9	1.5	1.0	1.0	1.3
14.5	13.8	14.7	15.2	15.2	15.2	15.2
15.4	16.0	17.2	16.8	16.6	16.6	18.7
1.0	0.9	0.8	1.3	1.1	0.9	0.9
4,379	5,573	6,058	6,487	7,206	N/A	N/A
500	1,000	1,000	1,000	1,000	1,000	1,000
8,553	9,284	11,122	12,711	14,220	N/A	N/A

The Budget Dollar*: Revenue, 1985-86 — Chart C7



*Excluding Extraordinary Adjustments

The Budget Dollar*: Expenditure, 1985-86 — Chart C8



*Excluding Extraordinary Adjustments